INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN TRENT PLC

Report on the audit of the financial statements

1. OPINION

In our opinion:
- the financial statements of Severn Trent Plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes to the consolidated financial statements 1 to 45 and the related notes to the parent company financial statements 1 to 19.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. SUMMARY OF OUR AUDIT APPROACH

Significant changes in our approach	The timing of the Group's year end, relative to the COVID-19 pandemic related UK lockdown, means the impact of the pandemic on the principal trading businesses in the Group was not significant in the financial year being audited. COVID-19 has however increased the level of risk and volatility as at the year end of certain markets to which Severn Trent Plc is exposed. This includes property markets, in which the Group's pension scheme is partially invested and the non-household retail water market that the Group's joint venture trades in. As a result, two new key audit matters were identified for the year ended 31 March 2020: – the valuation of the Group's assets held to fund retirement benefit obligations – specifically with reference to the property assets; and – accounting for the joint venture investment.
Key audit matters	The key audit matters that we identified in the current year were: – valuation of the provision for household trade receivables in Severn Trent Water Limited; – valuation of the Group's retirement benefit obligation – liabilities; – valuation of the Group's retirement benefit obligation – pension assets; – classification and valuation of capital expenditure in Severn Trent Water Limited; and – accounting for the joint venture investment. Within this report, key audit matters are identified as follows: ! Newly identified ↑ Increased level of risk ↔ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £16.4 million which was determined on the basis of profit before tax adjusted for gains/losses on financial instruments.
Scoping	Our scoping has resulted in over 95% of the Group's net operating assets and 95% of profit before tax adjusted for gains/ losses on financial instruments being subject to audit testing.

Strategic report
Governance
Group financial statements
Company financial statements
Other information

4. CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

4.1. Going concern

We have reviewed the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of the COVID-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 57 to 64 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 57 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on pages 66 and 67 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As noted in section 3, two additional key audit matters have been identified this year.

5.1. Valuation of the provision for household trade receivables in Severn Trent Water Limited

Key audit matter description	A portion of household customers do not, or cannot, pay their bills which results in the need for provisions to be made for non-payment of the related receivables. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. The bad debt provision recorded for household trade receivables in Severn Trent Water Limited as at 31 March 2020 was £134.3 million (31 March 2019: £115.3 million), which includes an additional £2.1 million to reflect management's estimate of the impact of COVID-19 on customers' ability to pay their outstanding bills to Severn Trent Water Limited. Provisions are made against Severn Trent Water Limited's trade receivables based on historical cash collection rates of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on the whole population of household debtors. A top-up to the provision has been recorded to reflect anticipated changes to cash collection as a result of COVID-19. The key audit matter, which is also a potential fraud risk, has been focused on the valuation of the household bad debt provision, and specifically whether the experience of debt invoiced seven to nine years ago provides an appropriate expectation of future credit losses under IFRS 9 Financial Instruments. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 95. The bad debt provision is discussed in note 2(p) and note 22 to the financial statements.

How the scope of our audit responded to the key audit matter	Our procedures included the following: – Obtaining an understanding of relevant management review controls over the bad debt provision model; – Testing the completeness and accuracy of data used in the bad debt model; – Reviewing management's assumptions applied to the bad debt provision and challenging whether they reflect the lifetime expected credit outcomes for receivables, including reviewing of cash collection data and historical trends; – Reviewing management's assumptions applied to the COVID-19 manual overlay and challenging the reasonableness of economic forecast data within the calculation by comparing against independent economic forecasts; – Testing the allocation of cash received in the current year against debt aged between seven and nine years; and – Reconciling the debtor ageing for each debt category to source data.
Key observations	We are satisfied that the bad debt provision has been properly calculated using appropriate relevant data and in accordance with IFRS 9.

5.2. Valuation of the Group's retirement benefit obligation – liabilities

Key audit matter description	Valuation of retirement benefit obligations is an area involving significant estimation because the process is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning the discount rate, inflation rate, and the longevity of pension scheme members in order to determine the value of the scheme's liabilities. This key audit matter is focused on the valuation of the pension scheme liabilities and the appropriateness of the actuarial assumptions that are used to calculate it, specifically with reference to the discount rate, inflation rate and mortality assumptions (updated during the year for the latest triennial funding valuations), and the related volatility of those assumptions during the COVID-19 pandemic. The Group's retirement benefit obligation (gross liability) as at 31 March 2020 is £2,648.1 million (31 March 2019: £2,871.8 million) as per note 28 Retirement benefit schemes. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 95. Management has included this as a key source of estimation uncertainty in note 4b to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: – Obtaining an understanding of management's controls over the appropriateness of the assumptions; – Challenging the discount rate and inflation rate assumptions used in the calculation of the pension scheme deficit as detailed in note 28, with the support of pension specialists within our audit team, including whether the assumptions reflect the increased degree of volatility in current COVID-19 circumstances; – Challenging the mortality assumptions from the latest triennial funding valuations used in the calculation of the pension scheme deficit as detailed in note 28; and – Assessing whether there have been any changes in the methodology to determine the assumptions since the prior year; and if any changes in methodology exists, challenging the appropriateness of the revised methodology.
Key observations	We are satisfied that the assumptions used by management in the valuation of the retirement benefit obligation are derived based on a consistent methodology with those applied in prior years and are appropriate.

5.3. Valuation of the Group's retirement benefit obligation – pension assets

Key audit matter description	The net retirement benefit obligation includes assets totalling £2,414.1 million of which £261.9 million (10.8%) are property assets. Consistent with guidance provided by the Royal Institute of Chartered Surveyors, the external valuers' reports to the investment managers, which management uses to estimate the fair value of the assets in the Group's balance sheet, have reported a 'material valuation uncertainty' in their valuation reports for property assets. This uncertainty clause is based on COVID-19 bringing an increased level of risk in and volatility to certain markets as at 31 March 2020. Given the range of estimation uncertainty, we identified a key audit matter associated with the valuation of the property assets. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 95. The pension assets, including the property assets, are discussed in note 28 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: – Obtaining an understanding of management's key controls over the valuation of pension scheme assets; – Obtaining from the investment managers for the property funds, the specific details of the material uncertainty clause in the valuers' reports; – Reviewing a summary of the assets in the funds, analysed by sector and also by length of unexpired leases; – Reviewing a summary of each fund, analysed by sector; and – Consulting with our Real Estate specialists in order to assess and conclude on the risks of misstatement.
Key observations	We are satisfied that the valuations of the property assets within the retirement benefit pension asset funds are reasonable as at 31 March 2020.

5.4. Classification and valuation of capital expenditure in Severn Trent Water Limited

Key audit matter description	Severn Trent Water Limited has a substantial capital programme which has been agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. During the year Severn Trent Water Limited has invested £830 million (2019: £783 million) in capital expenditure projects out of the total Group additions of £956.0 million (2019: £861.4 million) disclosed in note 18. Severn Trent Water Limited spent a further £144.5 million (2019: £137.3 million) on Infrastructure maintenance expenditure (total Group £149.6 million (2019: £141.6 million)) as disclosed in note 7. As the classification of capital expenditure, operating expenditure and infrastructure maintenance expenditure directly affects the Group's reported financial performance, we identified a key audit matter relating to an overstatement of capital expenditure, whether caused by changes to the Group's capital expenditure policy implementation guidance or by incorrect application of this guidance. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The Audit Committee also considered this a significant issue as discussed in the Audit Committee Report on page 95. Management has included this as a critical accounting judgement in note 4a to the financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures to respond to this key audit matter: – Reviewing Severn Trent Water Limited's capitalisation policy and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; – Obtaining an understanding of, and testing, relevant controls over the application of the policy to expenditure incurred on projects within the Group's capital programme during the year; – Testing whether there have been any changes in the application of the policy; and – For a sample of capital projects, assessing the application of the capitalisation policy to the costs incurred by reviewing the business cases and invoices.
Key observations	We are satisfied that the classification and valuation of assets capitalised in the year is appropriate.

5.5 Accounting for the joint venture investment

Key audit matter description	During the year ended 31 March 2020, the Group recognised £46.8 million as its share of losses, as an exceptional item, from its investment in a joint venture (Water Plus) which is a continuing operation. This reduced its investment in joint ventures to nil. In assessing recognition of its share of losses, management concluded that loans of £9.8 million provided via subordinated debt instruments represented long-term investments and therefore formed part of the carrying value of its investment in Water Plus. The carrying value of these loans were also reduced to nil as a result of the above losses. The Group has further loans receivable from Water Plus of £92.6 million (2019: £142.0 million) following repayments in the period of £35.6 million. Management identified the classification of loans to Water Plus (for the purpose of determining the carrying value of the long-term investment in the joint venture) to be a critical accounting judgement as disclosed in note 4a to the financial statements and interests in joint ventures is detailed in note 20 to the financial statements. The Audit Committee also considered this a significant issue as discussed in the Audit Committee Report on page 95. Given the materiality of the sums involved, the nature of the critical accounting judgement and the decision by management to present these losses as exceptional items, we determined that the accounting for and presentation of the Group's share of these exceptional losses represented a key audit matter.
How the scope of our audit responded to the key audit matter	In response to the judgement over whether the loans receivable should be classified as part of the long-term investment in Water Plus, our work included: – Reviewing the loan agreements and assessing whether they met the criteria of a long-term investment. In testing whether the loss reported by Water Plus should be recognised as an exceptional loss, we performed the following procedures: – Reading the Group's accounting policy for exceptional items as disclosed in note 2d to the financial statements, along with the guidance issued by ESMA specific to the application of the APM guidelines in the context of COVID-19; – Agreeing the share of loss to the Water Plus results for the year and assessing its quantum relative to materiality and the historical trading performance of Water Plus; – Assessing and challenging the items underpinning the loss recognised to determine whether they are non-recurring in nature by making enquiries of Water Plus management; and – Performing sensitivity analysis on key assumptions that would either individually or collectively impact the share of loss recognised whilst considering the likelihood of such movements.
Key observations	We are satisfied that the accounting judgements applied are appropriate and in accordance with the relevant standards and that the presentation of this matter complies with the Group's policy for exceptional items.

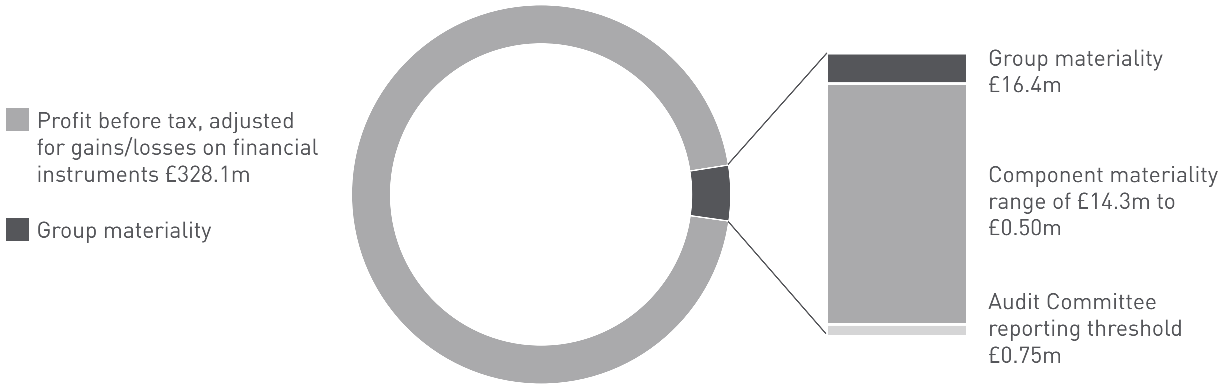
6. OUR APPLICATION OF MATERIALITY

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£16.4 million (2019: £18 million)	£15.1 million (2019: £16.2 million)
Basis for determining materiality	Approximately 5% of profit before tax and gains/losses on derivative financial instruments.	3.0% of net assets (2019: 3.0%) capped at 95% of Group materiality.
Rationale for the benchmark applied	In the year ended 31 March 2019, our benchmark was profit before tax, adjusted for gains/losses on financial instruments and exceptional items; our determined materiality was approximately 4.8% of this benchmark. In the year ended 31 March 2020, to reflect the increased level of risk and volatility arising from the COVID-19 pandemic and the significance of exceptional items, our benchmark has changed to no longer exclude exceptional items. Our resulting benchmark was profit before tax, adjusted for gains/losses on financial instruments.	The parent company does not trade or exist for profit generating purposes so materiality has been determined using net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered our assessment of the control environment, considering the potential reduction in the effectiveness of the internal control environment as a result of changes in working patterns since March 2020, as well as the continuity of the business year-on-year. We also considered the value of uncorrected misstatements identified in previous years.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000 (2019: £750,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at a Group level.

Regulated Water and Waste Water is primarily comprised of Severn Trent Water Limited which was subject to a full scope audit using materiality of £14.3 million, (2019: £15.0 million). We have audited a further seven components using statutory materiality which ranges from £0.50 million to £9 million (2019: nine components using statutory materiality which range from £34,000 to £9 million). Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

This represents over 95% (2019: over 95%) of the Group's net operating assets and profit before tax adjusted for gains/losses on financial instruments.

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

7.2. Our consideration of the control environment

The Group uses SAP, a financial accounting software platform, in all of its legal entities except those acquired as part of the Agrivert acquisition in 2019. The entities acquired under the Agrivert acquisition are not subject to a full scope audit as part of our Group audit of Severn Trent Plc. We utilised our IT specialists to assess and test relevant controls over the SAP system.

From our walkthroughs and understanding of the entity and the controls at the business cycle and account balance levels, we relied on controls over the accurate capitalisation of project expenses between capital and operating expenditure.

8. OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' Responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- the valuation of the provision for household trade receivables in Severn Trent Water Limited;
- the classification and valuation of capital expenditure in Severn Trent Water Limited; and
- accounting for the joint venture investment.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the provision for household trade receivables in Severn Trent Water, the classification and valuation of capital expenditure in Severn Trent Water Limited, and accounting for the joint venture investment as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

13. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. OTHER MATTERS

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company at its Annual General Meeting on 26 July 2005 to audit the financial statements for the year ending 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, covering the years ended 31 March 2006 to 31 March 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kari Hale, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom

19 May 2020

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 Underlying £m	2020 Non-underlying items[1] £m	2020 Total £m	2019 Underlying £m	2019 Non-underlying items[1] £m	2019 Total £m
Turnover	5,6	**1,843.5**	**–**	**1,843.5**	1,767.4	–	1,767.4
Other income		**6.9**	**–**	**6.9**	19.9	–	19.9
Operating costs before charge for bad and doubtful debts	7	**(1,237.2)**	**(2.1)**	**(1,239.3)**	(1,188.1)	(10.3)	(1,198.4)
Charge for bad and doubtful debts	7	**(42.9)**	**–**	**(42.9)**	(25.6)	–	(25.6)
Total operating costs		**(1,280.1)**	**(2.1)**	**(1,282.2)**	(1,213.7)	(10.3)	(1,224.0)
Profit before interest and tax		**570.3**	**(2.1)**	**568.2**	573.6	(10.3)	563.3
Finance income	10	**59.9**	**–**	**59.9**	68.9	–	68.9
Finance costs	11	**(248.3)**	**–**	**(248.3)**	(263.1)	–	(263.1)
Net finance costs		**(188.4)**	**–**	**(188.4)**	(194.2)	–	(194.2)
Impairment of loans receivable	8	**–**	**(4.9)**	**(4.9)**	–	–	–
Net (losses)/gains on financial instruments	12	**(17.4)**	**–**	**(17.4)**	16.0	–	16.0
Share of net loss of joint ventures accounted for using the equity method	20	**–**	**(46.8)**	**(46.8)**	(0.4)	–	(0.4)
Profit on ordinary activities before taxation		**364.5**	**(53.8)**	**310.7**	395.0	(10.3)	384.7
Current tax	13	**(30.1)**	**(0.9)**	**(31.0)**	(31.8)	–	(31.8)
Deferred tax	13	**(29.1)**	**(91.8)**	**(120.9)**	(39.4)	1.8	(37.6)
Taxation on profit on ordinary activities	13	**(59.2)**	**(92.7)**	**(151.9)**	(71.2)	1.8	(69.4)
Profit for the year		**305.3**	**(146.5)**	**158.8**	323.8	(8.5)	315.3

1 For definition of non-underlying items see note 44.

EARNINGS PER SHARE (PENCE)

	Note	2020	2019
Basic	15	**66.7**	133.4
Diluted	15	**66.3**	133.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Profit for the year		**158.8**	315.3
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains	28	**187.4**	57.9
Current tax on pension contributions in prior periods	13	**9.5**	9.5
Deferred tax on pension contributions in prior periods	13	**(9.5)**	(9.5)
Deferred tax on net actuarial gains	13	**(32.9)**	(12.2)
Deferred tax arising on rate change	13	**2.7**	–
		157.2	45.7
Items that may be reclassified to the income statement:			
Losses on cash flow hedges		**(38.9)**	(8.6)
Deferred tax on losses on cash flow hedges	13	**7.4**	1.5
Amounts on cash flow hedges transferred to the income statement	12	**8.2**	8.2
Deferred tax on transfer to the income statement	13	**(1.6)**	(1.3)
		(24.9)	(0.2)
Other comprehensive income for the year		**132.3**	45.5
Total comprehensive income for the year		**291.1**	360.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

		Equity attributable to owners of the Company				
	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
As at 1 April 2018		235.1	117.7	93.0	551.1	996.9
Profit for the year		–	–	–	315.3	315.3
Losses on cash flow hedges		–	–	(8.6)	–	(8.6)
Deferred tax on losses on cash flow hedges	13	–	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	12	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	13	–	–	(1.3)	–	(1.3)
Net actuarial gains	28	–	–	–	57.9	57.9
Current tax on pension contributions in prior periods	13	–	–	–	9.5	9.5
Deferred tax on pension contributions in prior periods	13	–	–	–	(9.5)	(9.5)
Deferred tax on net actuarial gains	13	–	–	–	(12.2)	(12.2)
Total comprehensive income for the year		–	–	(0.2)	361.0	360.8
Share options and LTIPs						
- proceeds from shares issued	30,31	0.8	10.3	–	–	11.1
- value of employees' services	37	–	–	–	8.1	8.1
- own shares purchased		–	–	–	(1.1)	(1.1)
Current tax on share based payments	13	–	–	–	0.2	0.2
Dividends paid	14	–	–	–	(211.9)	(211.9)
As at 31 March 2019		235.9	128.0	92.8	707.4	1,164.1
Adjustment on adoption of IFRS 16	2	–	–	–	(1.6)	(1.6)
As at 1 April 2019		235.9	128.0	92.8	705.8	1,162.5
Profit for the year		–	–	–	158.8	158.8
Losses on cash flow hedges		–	–	(38.9)	–	(38.9)
Deferred tax on losses on cash flow hedges	13	–	–	7.4	–	7.4
Amounts on cash flow hedges transferred to the income statement	12	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	13	–	–	(1.6)	–	(1.6)
Net actuarial gains	28	–	–	–	187.4	187.4
Current tax on pension contributions in prior periods	13	–	–	–	9.5	9.5
Deferred tax on pension contributions in prior periods	13	–	–	–	(9.5)	(9.5)
Deferred tax on net actuarial gains	13	–	–	–	(32.9)	(32.9)
Deferred tax arising from rate change	13	–	–	–	2.7	2.7
Total comprehensive income for the year		–	–	(24.9)	316.0	291.1
Share options and LTIPs						
- proceeds from shares issued	30,31	0.6	9.0	–	–	9.6
- value of employees' services	37	–	–	–	8.1	8.1
Deferred tax on share based payments	13	–	–	–	0.8	0.8
Dividends paid	14	–	–	–	(228.4)	(228.4)
As at 31 March 2020		**236.5**	**137.0**	**67.9**	**802.3**	**1,243.7**

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2020

	Note	2020 £m	2019 £m
Non-current assets			
Goodwill	16	**91.4**	90.9
Other intangible assets	17	**153.8**	124.2
Property, plant and equipment	18	**9,580.8**	9,085.6
Right-of-use assets	19	**128.8**	–
Investments in joint ventures	20	**–**	37.0
Derivative financial instruments	21	**65.5**	68.4
Trade and other receivables	22	**153.7**	204.0
Retirement benefit surplus	28	**21.3**	18.6
		10,195.3	9,628.7
Current assets			
Inventory		**29.2**	20.8
Trade and other receivables	22	**525.5**	513.5
Current tax receivable		**3.1**	–
Derivative financial instruments	21	**–**	0.1
Cash and cash equivalents	23	**48.6**	41.0
		606.4	575.4
Current liabilities			
Borrowings	24	**(475.4)**	(197.0)
Derivative financial instruments	25	**(4.4)**	–
Trade and other payables	26	**(573.6)**	(496.7)
Current tax payable		**–**	(9.3)
Provisions for liabilities	29	**(18.9)**	(32.2)
		(1,072.3)	(735.2)
Net current liabilities		**(465.9)**	(159.8)
Non-current liabilities			
Borrowings	24	**(5,957.7)**	(5,857.2)
Derivative financial instruments	25	**(159.2)**	(126.5)
Trade and other payables	26	**(1,187.3)**	(1,082.9)
Deferred tax	27	**(901.1)**	(747.5)
Retirement benefit obligations	28	**(255.3)**	(471.5)
Provisions for liabilities	29	**(25.1)**	(19.2)
		(8,485.7)	(8,304.8)
Net assets		**1,243.7**	1,164.1
Equity			
Called up share capital	30	**236.5**	235.9
Share premium account	31	**137.0**	128.0
Other reserves	32	**67.9**	92.8
Retained earnings		**802.3**	707.4
Total equity		**1,243.7**	1,164.1

Signed on behalf of the Board who approved the accounts on 19 May 2020.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Cash generated from operations[1]	39	**928.1**	872.8
Tax received	39	**0.4**	–
Tax paid	39	**(34.3)**	(21.3)
Net cash generated from operating activities		**894.2**	851.5
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired		**–**	(50.9)
Investments in associates and joint ventures		**–**	(6.2)
Purchases of property, plant and equipment		**(777.2)**	(782.1)
Purchases of intangible assets and goodwill		**(74.8)**	(35.1)
Proceeds on disposal of property, plant and equipment		**12.9**	1.4
Net loans repaid by joint ventures		**35.6**	–
Interest received		**2.0**	0.8
Net cash outflow from investing activities		**(801.5)**	(872.1)
Cash flow from financing activities			
Interest paid		**(181.9)**	(158.0)
Interest element of lease payments		**(4.3)**	(4.4)
Dividends paid to shareholders of the parent		**(228.4)**	(211.9)
Repayments of borrowings		**(3.0)**	(166.5)
Principal elements of lease payments		**(5.5)**	(1.7)
New loans raised		**330.1**	554.2
Issues of shares		**9.6**	11.1
Payments for swap terminations		**(16.8)**	–
Proceeds from swap terminations		**16.5**	–
Purchase of own shares		**–**	(1.1)
Net cash (outflow)/inflow from financing activities		**(83.7)**	21.7
Net movement in cash and cash equivalents		**9.0**	1.1
Net cash and cash equivalents at the beginning of the year		**39.6**	38.5
Net cash and cash equivalents at end of year		**48.6**	39.6
Cash at bank and in hand	23	**37.3**	41.0
Bank overdrafts	24	**–**	(1.4)
Short-term deposits	23	**11.3**	–
		48.6	39.6

1 Contributions and grants received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash inflows by £46.5 million and increasing investing cash outflows by the same amount.

1 GENERAL INFORMATION

The Severn Trent Group has a number of operations. These are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the Annual Report and Accounts.

Severn Trent Plc is listed on the London Stock Exchange.

2 ACCOUNTING POLICIES

a) Basis of preparation

The financial statements for the Group and the parent company have been prepared on the going concern basis (see Strategic report on page 68 which sets out the Group's considerations relating to viability and going concern) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value.

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2020.

(ii) Parent company financial statements

The parent company financial statements have been prepared in accordance with United Kingdom Accounting Standards and comply with the Companies Act 2006. The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements'; accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'.

Therefore the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to statement of cash flows, share based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the year is disclosed in the statement of comprehensive income, the statement of changes in equity and the balance sheet.

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership ('the partnerships'), which are registered in Scotland. As the partnerships are included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnerships (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated. Where policies are specific to the Group or to the Company this is set out in the relevant policy.

(iii) Changes in accounting policies

Amendments to IFRS 9

The Group has early adopted the amendments to IFRS 7 and IFRS 9 introduced to provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the planned replacement of benchmark interest rates such as LIBOR.

Details of the Group's management of the impacts of the replacement of such benchmarks and the Group's risk exposure that is affected by interest rate benchmark reform are set out in note 36.

IFRS 16

In the current financial year the Group has adopted IFRS 16 Leases.

The Group has adopted IFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for prior reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 April 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.14%.

For leases previously classified as finance leases the Group recognised the carrying amount of the right-of-use asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. There have been no remeasurement amounts of leases previously classified as finance leases under IFRS 16 principles.

	£m
Operating lease commitments disclosed as at 31 March 2019	17.5
Add: adjustments as a result of a different treatment of extension and termination options	10.6
Add: finance lease liabilities recognised as at 31 March 2019	112.2
Less: short-term leases recognised on a straight-line basis as an expense	(1.0)
Less: low-value leases recognised on a straight-line basis as an expense	(0.1)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(11.1)
Lease liability recognised as at 1 April 2019	**128.1**

Recognised at 31 March 2020 as:	
Current lease liabilities	**5.8**
Non-current lease liabilities	**116.9**
	122.7

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 March 2020 £m	1 April 2019 £m
Land and buildings	**10.4**	11.7
Infrastructure assets	**113.8**	114.8
Fixed plant and equipment	**4.2**	7.8
Moveable plant	**0.4**	0.8
Total right-of-use assets	**128.8**	135.1

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	£m
Property, plant and equipment	(118.8)
Right-of-use assets	135.1
Deferred tax	0.4
Provisions	(2.4)
Borrowings	(15.9)
Retained earnings	1.6

Impact on segment disclosure and earnings per share

Year ended 31 March 2020	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m
Segment assets	7.1	6.4	1.0
Segment liabilities	–	(2.4)	–
	7.1	**4.0**	**1.0**

Basic and diluted earnings per share decreased by 0.3 pence per share for the year ended 31 March 2020 as a result of the adoption of IFRS16. Underlying basic and diluted earnings per share also decreased by 0.3 pence per share.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for operating leases with a remaining lease term of less than 12 months at 1 April 2019 as short-term leases per asset class;
- accounting for operating leases of low-value assets as at 1 April 2019 on an individual basis;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Leasing activities

The Group leases various land and buildings, plant and equipment and vehicles. Rental agreements are typically made for fixed periods of 1 to 999 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the current financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as right-of-use assets with a corresponding liability at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following: the amount of the initial measurement of lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. During the current financial year, there has been no financial effect of revising lease terms to reflect the effect of exercising extension or termination options.

b) Basis of consolidation

The consolidated financial statements include the results of Severn Trent Plc and its subsidiaries and joint ventures. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

2 ACCOUNTING POLICIES (CONTINUED)

b) Basis of consolidation (continued)

Joint venture undertakings are accounted for on an equity basis where the Group exercised joint control under a contractual arrangement.

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since that date.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not included within the Group financial statements.

Foreign currency denominated assets and liabilities of the Company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All gains and losses on exchange arising during the year are dealt with through the income statement.

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer.

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

Operating services revenue is recognised in line with the delivery of each performance obligation. Further details of the performance obligations are detailed in note 6. The expected turnover over the life of a contract is allocated to each performance obligation based on the standalone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Any changes to the revenue relating to performance obligations already delivered are recognised in the period in which they are identified. Differences between amounts recognised as revenue and amounts billed are recognised as contract assets or liabilities.

Renewable energy revenue includes sales of electricity and gas and the related green energy incentives. Revenue from energy sales is recognised when the electricity or gas is delivered to the national grid. Green energy incentives are recognised when the Group becomes entitled to them.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

d) Exceptional items

Exceptional items are income or expenditure, which individually or in aggregate, if of a similar type, should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates or joint ventures is included in interests in associates or joint ventures respectively. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill arising on all acquisitions prior to 1 April 1998 was written off to reserves under UK GAAP and remains eliminated against reserves. Following the disposal of the US Operating Services business on 30 June 2017, all acquisitions prior to 1 April 1998 that were included in goodwill have now been sold. Purchased goodwill arising on acquisitions of subsidiaries after 31 March 1998 is treated as an intangible fixed asset.

Goodwill and indefinite life intangibles are tested for impairment in accordance with the policy set out in note 2 l) below and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

g) Other intangible non-current assets
Intangible assets acquired separately are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

	Years
Software	3 – 10
Other intangible assets	15 – 25

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see 2 l) below).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Research expenditure is expensed when it is incurred.

h) Pre-contract costs
Incremental costs incurred in obtaining contracts with customers are recognised as a prepayment and written off to the income statement over the life of the contract where it is expected that the costs will be recovered.

All other costs of obtaining contracts are written off to the income statement as incurred.

i) Property, plant and equipment
Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS) less accumulated depreciation and impairment. Expenditure on property, plant and equipment relating to research and development projects is capitalised and depreciated over the expected useful life of those assets.

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the Group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation, the corresponding credit is recognised immediately in turnover. Where the transfer is considered to be linked to the provision of ongoing services the corresponding credit is recorded in deferred income and released to operating costs over the expected useful lives of the related assets.

Where assets take a substantial period of time to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost.

Property, plant and equipment is depreciated, using the straight-line method, to its estimated residual value over its estimated useful life, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives are:

	Years
Infrastructure assets	
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80 – 150
Sewers	150 – 200
Other assets	
Buildings	30 – 80
Fixed plant and equipment	20 – 40
Vehicles and mobile plant	2 – 15

j) Leased assets
Where the Group enters into a contract that contains a lease, it recognises a right-of-use asset and a lease liability. The right-of-use asset is measured at cost, which includes: the amount of the initial measurement of the lease liability (see below); any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs incurred by the Group; and an estimate of any remediation or similar costs required by the lease contract.

At the commencement date the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Group's incremental borrowing rate. Lease liabilities are included in borrowings.

Lease payments are treated as consisting of a capital element and a finance charge; the capital element reduces the lease liability and the finance charge is written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation of the right-of-use asset is charged over the shorter of the estimated useful life and the lease period unless ownership is expected to transfer to the Group at the end of the lease, in which case the right-of-use asset is depreciated to the end of the useful life of the underlying asset.

Where the lease term is less than one year or the underlying asset is low value, the Group does not recognise a right-of-use asset or lease liability. Payments under such leases are charged to operating costs.

k) Grants and contributions
Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to operating costs over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in operating costs in the period that they become receivable.

2 ACCOUNTING POLICIES (CONTINUED)

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the Group's cost of capital adjusted for the risk profiles of individual businesses. For regulated businesses we use the WACC from Ofwat's latest price review adjusted for market changes since this date where appropriate.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the income statement.

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost. Impairments are recognised in line with policy set out in 2 l) above.

n) Inventories

Inventories are stated at the lower of cost and net realisable value. For properties held for resale, the cost includes the cost of acquiring and developing the sites.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

o) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received where the fee is integral to the yield on the loan. All loans receivable are held for collection of contractual cash flows, which represent solely payments of principal and interest. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding.

The Group recognises a loss allowance for expected credit losses ('ECL') on its loans and receivables to joint ventures. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the loans. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default over the remaining life of the asset at the reporting date with the risk of default for the same period at initial recognition. In making this assessment, the Group considers both quantitative and qualitative information about the risk of default that is reasonable and supportable, including forward-looking information that is available. This includes assessment of a deterioration in: actual or expected business; financial or economic conditions of the borrower; actual or expected operating results, cash flows and financial position of the borrower; and the regulatory, economic, or technological environment faced by the borrower.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

(ii) Definition of default

The Group considers that a default has taken place where information developed internally indicates that the borrower is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

p) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The Group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Group's historical experience of trade receivable write-offs and reasonable, supportable forward-looking information which is available without undue cost or effort.

q) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high-quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the year, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions

are classified as remeasurements, charged or credited to other comprehensive income and recorded in the statement of comprehensive income in the period in which they arise.

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating Group companies. Therefore, the parent recognises a charge in the income statement which is equal to the contributions payable in the year. The net defined benefit cost for these schemes is recognised by the sponsoring employers, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig.

(ii) Defined contribution schemes
Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

r) Provisions
Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the Group's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

s) Purchase of own shares
Where market purchases of Severn Trent Ordinary Shares are made through an obligating contract, a liability for the present value of the redemption amount is recognised and charged to retained earnings. Payments for the purchase of shares are charged to the liability when made.

Shares held by the Severn Trent Employee Share Ownership Trust that have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest.

t) Borrowings
The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 u) and the accounting policy for lease liabilities is set out in note 2 j).

All other borrowings are initially recognised at fair value less issue costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding.

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs.

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date. Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments.

u) Derivative financial instruments
Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34 a). The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument. The various accounting policies are described below.

Interest receivable or payable in respect of derivative financial instruments is included in finance income or costs.

Derivatives not designated as hedging instruments
Gains or losses arising on remeasurement of derivative financial instruments that are not designated as hedging instruments are recognised in gains/losses on financial instruments in the income statement.

Derivatives designated as hedging instruments
The Group uses derivative financial instruments such as cross currency swaps, forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations.

At the inception of each hedge relationship, the Group documents:

- the economic relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- whether changes in fair value or the cash flows of the hedging instrument are expected to offset changes in fair values or cash flows (as appropriate) of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Fair value hedges
Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item.

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item.

Cash flow hedges
The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement.

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments. If the hedging instrument is terminated, the gains and losses previously recognised in equity are held in equity until either the forecast transaction occurs or the forecast transaction is no longer expected to occur.

Embedded derivatives
Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if the host contract is not an asset within the scope of IFRS 9 and:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

2 ACCOUNTING POLICIES (CONTINUED)

v) Share based payment

The Group operates a number of equity settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the Group. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

Share based compensation plans are satisfied in shares of the parent company. Where the fair value of the awards is not recharged to participating Group companies, the parent company records the fair value of the awards as an increase in its investment in the subsidiary. The investment is adjusted to reflect shares that do not vest as a result of failing to meet a non-market based condition.

w) Cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Net cash and cash equivalents include overdrafts repayable on demand and amounts drawn under the Group's revolving credit facility.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

x) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except that:

- deferred tax assets or liabilities and retirement benefit assets or obligations are recognised and measured in accordance with the policies set out under notes 2 e) and 2 q) above; and
- assets or disposal groups that are classified as held for sale are measured in accordance with the policy set out below.

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, then the disposal group is classified as held for sale. The disposal group is measured at the lower of the carrying amount and the fair value less costs to sell. Depreciation is not charged on such assets.

Where the initial accounting for a business combination is incomplete at the end of the reporting period, the Group reports provisional amounts and finalises these within one year of the acquisition date (the 'measurement period').

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any interest in the acquiree previously held by the Group over the net of the amounts of the assets and liabilities acquired. If the amount of the assets and liabilities acquired exceeds the amount of the consideration, this is immediately recognised in the income statement as a bargain purchase gain.

Contingent consideration is measured at fair value at the acquisition date.

During the measurement period, changes in provisional fair values of assets and liabilities acquired, or of contingent consideration, are recognised as adjustments to goodwill or bargain purchase gain. Outside the measurement period, changes in fair value of contingent consideration that is not classified as equity are recognised in profit or loss.

3 NEW ACCOUNTING POLICIES AND FUTURE REQUIREMENTS

At the balance sheet date, no Standards or Interpretations were in issue but not yet effective that are expected to have a material impact on the Group's financial position.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, the Group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

a) Critical accounting judgments

i) Classification of costs between operating expenditure and capital expenditure

Severn Trent Water's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that that Group has developed to facilitate the consistent application of its accounting policies.

ii) Classification of loans to Water Plus for the purpose of determining the share of joint venture losses to be recognised

Water Plus, the Group's joint venture, incurred a loss after tax of £103.3 million in the year ended 31 March 2020. The Group's share of the loss is £51.7 million but, since the Group has no obligation to make any further contribution to Water Plus, the Group is not required to recognise losses in excess of its net investment in the joint venture. At 1 April 2019 the Group's equity investment in Water Plus was £37.0 million and this has been entirely written off by the losses in the year. The Group has also advanced loans to Water Plus under varying terms. Assessing whether any of these loans form part of the Group's net investment in Water Plus under IAS 28 requires judgments to be made.

The Group holds a loan of £12.5 million under a zero coupon subordinated loan note ('the note'). The note was issued at par and does not bear interest. It is repayable in full in 2027. Since the note does not bear interest the Group considers that the note forms part of its net investment in Water Plus and therefore should be taken into account in determining the amount of the Group's share of Water Plus's losses that should be recognised. At 31 March 2020 the note was carried at a value of £9.8 million, before writing off any of the Group's share of Water Plus's losses against it. The difference between the carrying value of the note and its par value was included in the Group's equity investment in Water Plus. The Group has recognised £9.8 million of Water Plus's losses against the value of the note.

The Group has also made available revolving credit facilities ('RCFs') from Severn Trent Plc and Severn Trent Water in the sums of £32.5 million and £100.0 million respectively. The RCFs bear interest at LIBOR plus 2.1% and 1.73% respectively and are repayable in September 2021. The amount drawn down on the facilities fluctuates with Water Plus's working capital requirements. The Group considers that these facilities have been advanced on arm's length commercial terms and that they do not form part of the Group's net investment in Water Plus. None of Water Plus's losses have been written off against the amount receivable on the RCFs.

iii) Classification of share of joint venture losses as exceptional
The Group's accounting policy defining exceptional items is set out in note 2 above. Further details of the components of this loss are set out in the CFO's review on page 51, which indicates that £14.3 million arose from trading activities in the year excluding the impacts of COVID-19 and that £32.5 million arose from asset impairments resulting from COVID-19. The Group considers that the impacts of COVID-19 are exceptional within the parameters of the Group's accounting policy since the impact is material and unusual.

IAS 28 requires that the share of loss of joint ventures is presented as a single figure in the income statement. The Group has considered whether to present the entire loss as underlying or as exceptional.

In view of significantly larger portion of the total loss that arose from the COVID-19 related losses compared to the amount attributable to underlying trading of the joint venture and the accounting requirements of IAS 28, the Group considers that presentation of the share of loss of joint ventures as exceptional is the most relevant and reliable available under the requirements of IAS 28.

b) Sources of estimation uncertainty
i) Depreciation and carrying amounts of property, plant and equipment
Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the Group's experience of similar assets. Details are set out in note 2 i). The average useful life of property, plant and equipment is around 45 years. A five year change in the average useful lives would result in a £37 million change in the depreciation charge.

ii) Retirement benefit obligations
Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners, and, where market prices are not available, the values of the assets held. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 28.

5 SEGMENTAL ANALYSIS
a) Background
The Group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited (excluding Bioresources and Developer Services), its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses in the UK and Ireland, the Green Power business, the Bioresources business, the Property Development business and our other businesses including Developer Services, affinity products and searches.

On 30 November 2018 the Group completed the acquisition of Agrivert Holdings Limited. This business has been included in the Business Services segment with effect from that date. Further details of the acquisition are set out in note 38.

The Severn Trent Executive Committee ('STEC') is considered to be the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above. Details of Regulated Water and Waste Water's operations are described on pages 38 to 49 of the Strategic report and those of Business Services on page 50.

Results from interests in joint ventures are not included in the segmental reports reviewed by STEC.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT (see note 44). A segmental analysis of turnover and underlying PBIT is presented below.

Goodwill is allocated and monitored at the segment level.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

b) Segmental results
The following table shows the segmental turnover and PBIT:

Year ended 31 March	**2020** Regulated Water and Waste Water £m	**2020** Business Services £m	2019 Regulated Water and Waste Water £m	2019 Business Services £m
External turnover	**1,620.7**	**222.8**	1,583.1	183.4
Inter-segment turnover	**–**	**17.6**	–	17.5
Total turnover	**1,620.7**	**240.4**	1,583.1	200.9
Underlying PBIT	**511.5**	**64.9**	527.0	64.1
Exceptional operating items and amortisation of acquired intangible assets	**–**	**(2.1)**	(8.9)	(1.0)
Profit before interest and tax	**511.5**	**62.8**	518.1	63.1

The reportable segments' turnover is reconciled to Group turnover as follows:

Year ended 31 March	**2020 £m**	2019 £m
Regulated Water and Waste Water	**1,620.7**	1,583.1
Business Services	**240.4**	200.9
Corporate and other	**0.7**	0.4
Consolidation adjustments	**(18.3)**	(17.0)
	1,843.5	1,767.4

Included in the revenues of Regulated Water and Waste Water of £1,620.7 million (2019: £1,583.1 million) is £306.6 million (2019: £335.0 million) which arose from sales to Water Plus Select Limited. No other single customer contributed 10% or more to the Group's revenue for either 2020 or 2019.

5 SEGMENTAL ANALYSIS (CONTINUED)

b) Segmental results (continued)

Segmental underlying PBIT is reconciled to the Group's profit before tax as follows:

Year ended 31 March	2020 £m	2019 £m
Regulated Water and Waste Water	**511.5**	527.0
Business Services	**64.9**	64.1
Corporate and other	**(5.6)**	(8.2)
Consolidation adjustments	**(0.5)**	(9.3)
Underlying PBIT	**570.3**	573.6
Exceptional operating items and amortisation of acquired intangible assets:		
Regulated Water and Waste Water	**–**	(8.9)
Business Services	**(2.1)**	(1.0)
Corporate and other	**–**	(0.4)
Net finance costs	**(188.4)**	(194.2)
Impairment of loans receivable	**(4.9)**	–
Net (losses)/gains on financial instruments	**(17.4)**	16.0
Share of net loss of joint ventures accounted for using the equity method	**(46.8)**	(0.4)
Profit on ordinary activities before taxation	**310.7**	384.7

The Group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a Group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

c) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC. The balance sheet measure reviewed by STEC on a segmental basis is capital employed.

	2020		2019	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**9,883.0**	**626.3**	9,214.4	622.3
Goodwill	**63.5**	**29.2**	63.5	28.7
Investments in joint ventures	**–**	**–**	–	37.0
Segment assets	**9,946.5**	**655.5**	9,277.9	688.0
Segment operating liabilities	**(1,991.8)**	**(42.4)**	(1,986.3)	(68.7)
Capital employed	**7,954.7**	**613.1**	7,291.6	619.3

Operating assets comprise other intangible assets, property, plant and equipment, right-of-use assets, retirement benefit surpluses, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

The reportable segments' assets are reconciled to the Group's total assets as follows:

	2020 £m	2019 £m
Segment assets		
Regulated Water and Waste Water	**9,946.5**	9,277.9
Business Services	**655.5**	688.0
Corporate and other	**3.7**	4.0
Other financial assets	**114.1**	109.5
Loans receivable from joint venture	**92.6**	142.0
Current tax receivable	**3.1**	–
Consolidation adjustments	**(13.8)**	(17.3)
Total assets	**10,801.7**	10,204.1

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets.

The reportable segments' liabilities are reconciled to the Group's total liabilities as follows:

	2020 £m	2019 £m
Segment liabilities		
Regulated Water and Waste Water	**(1,991.8)**	(1,986.3)
Business Services	**(42.4)**	(68.7)
Corporate and other	**(42.3)**	(62.3)
Other financial liabilities	**(6,596.8)**	(6,180.7)
Current tax payable	**–**	(9.3)
Deferred tax	**(901.1)**	(747.5)
Consolidation adjustments	**16.4**	14.8
Total liabilities	**(9,558.0)**	(9,040.0)

The consolidation adjustments comprise elimination of intra-group creditors.

The following table shows the additions to other intangible assets, property, plant and equipment and right-of-use assets:

	2020		2019	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**60.7**	**1.8**	36.1	2.3
Property, plant and equipment	**946.8**	**9.4**	851.1	10.3
Right-of-use assets	**–**	**0.3**	–	–

d) Geographical areas
The Group's sales were derived from the following countries:

	2020 £m	2019 £m
UK	**1,838.9**	1,762.8
Other	**4.6**	4.6
	1,843.5	1,767.4

The Group's non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) were located in the UK in 2020 and 2019.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue recognised from contracts with customers is analysed by type of revenue and by business segment below:

Year ended 31 March 2020	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,616.4	57.1	–	–	1,673.5
Operating services	–	70.7	–	–	70.7
Renewable energy	–	81.2	–	–	81.2
Other sales	4.3	13.8	–	–	18.1
Intra-group sales	–	17.6	0.7	(18.3)	–
	1,620.7	**240.4**	**0.7**	**(18.3)**	**1,843.5**

Year ended 31 March 2019	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,581.7	54.5	–	–	1,636.2
Operating services	–	57.1	–	–	57.1
Renewable energy	–	46.2	–	–	46.2
Other sales	1.4	25.7	–	0.8	27.9
Intra-group sales	–	17.4	0.4	(17.8)	–
	1,583.1	**200.9**	**0.4**	**(17.0)**	**1,767.4**

Revenue from water and waste water services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and waste water services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year, and revenue is recognised on a straight-line basis over the financial year.

Income from diversions of £6.8 million (2018/19: £8.4 million), which is reimbursement of costs for diversions, is included within infrastructure maintenance expenditure within operating costs.

The Operating Services business includes a material 25-year contract with multiple performance obligations. Under this contract the Group bills the customer based on an inflation-linked volumetric tariff and invoices are payable on normal commercial terms. The performance obligations, which are satisfied as the services are performed, are: operating and maintaining the customer's infrastructure assets; upgrading the customer's infrastructure assets; administrating the services received from statutory water and sewerage undertakers; administrating billing services of the customer's commercial and Non Base Dependent customers. Revenue has been allocated to each performance obligation based on the stand-alone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Changes to projected margins are adjusted on a cumulative basis in the period that they are identified.

Other than the provision of water and waste water services, there is no direct correlation between the satisfaction of the performance obligations and the timing of billing and customer payments. The estimated transaction price for the contract is derived from estimates of the customer's consumption at the contract tariff rate, adjusted for inflation. This estimate is updated on an annual basis. There was no significant change in the estimated transaction price in the year. At 31 March 2020 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £459.3 million (2019: £509.6 million). This amount is expected to be recognised as revenue as follows:

	2020 £m	2019 £m
In the next year	**43.6**	43.5
Between one and five years	**177.6**	178.1
After more than five years	**238.1**	288.0
	459.3	509.6

The assumptions and other sources of estimation uncertainty in relation to this contract do not present a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year and therefore are not included as a source of estimation uncertainty in note 4 b).

Revenue recognised in excess of amounts billed is recorded as a contract asset and amounts billed in excess of revenue recognised is recorded as a contract liability. Changes in contract assets in the year were as follows:

	2020 £m	2019 £m
Contract asset at 1 April	**35.1**	39.1
Amounts billed	**(47.6)**	(46.1)
Revenue recognised	**49.1**	42.1
Contract asset at 31 March	**36.6**	35.1

No revenue recognised in the year was included as a contract liability at the beginning of the year (2019: nil). No revenue recognised in the year is from performance obligations satisfied in previous periods (2019: nil).

7 NET OPERATING COSTS

	2020			2019		
	Before adjusting and exceptional costs £m	Non-underlying items £m	Total £m	Before adjusting and exceptional costs £m	Non-underlying items £m	Total £m
Wages and salaries	**281.1**	**–**	**281.1**	252.2	–	252.2
Social security costs	**28.9**	**–**	**28.9**	25.5	–	25.5
Pension costs	**25.8**	**–**	**25.8**	23.6	9.6	33.2
Share based payments	**8.1**	**–**	**8.1**	8.1	–	8.1
Total employee costs	**343.9**	**–**	**343.9**	309.4	9.6	319.0
Power	**94.5**	**–**	**94.5**	90.3	–	90.3
Raw materials and consumables	**68.4**	**–**	**68.4**	60.6	–	60.6
Rates	**81.6**	**–**	**81.6**	80.8	–	80.8
Charge for bad and doubtful debts	**42.9**	**–**	**42.9**	25.6	–	25.6
Service charges	**39.4**	**–**	**39.4**	35.2	–	35.2
Depreciation of property, plant and equipment	**327.4**	**–**	**327.4**	315.4	–	315.4
Depreciation of right-of-use assets	**6.6**	**–**	**6.6**	–	–	–
Amortisation of intangible assets	**30.8**	**2.1**	**32.9**	29.8	0.7	30.5
Hired and contracted services	**237.8**	**–**	**237.8**	242.1	–	242.1
Rental charges						
– land and buildings	**0.6**	**–**	**0.6**	2.3	–	2.3
– other	**1.3**	**–**	**1.3**	1.6	–	1.6
Hire of plant and machinery	**7.4**	**–**	**7.4**	6.8	–	6.8
Loss on disposal of tangible fixed assets	**1.2**	**–**	**1.2**	0.6	–	0.6
Exchange (gains)/losses	**(0.6)**	**–**	**(0.6)**	0.1	–	0.1
Infrastructure maintenance expenditure	**149.6**	**–**	**149.6**	141.6	–	141.6
Ofwat licence fees	**5.1**	**–**	**5.1**	5.1	–	5.1
Other operating costs	**42.1**	**–**	**42.1**	48.4	–	48.4
Other operating income	**(3.0)**	**–**	**(3.0)**	(3.3)	–	(3.3)
	1,477.0	**2.1**	**1,479.1**	1,392.4	10.3	1,402.7
Release from deferred credits	**(15.4)**	**–**	**(15.4)**	(14.7)	–	(14.7)
Own work capitalised	**(181.5)**	**–**	**(181.5)**	(164.0)	–	(164.0)
	1,280.1	**2.1**	**1,282.2**	1,213.7	10.3	1,224.0

Further details of exceptional costs are given in note 8. Other adjusting costs are amortisation of acquired intangible assets.

7 NET OPERATING COSTS (CONTINUED)

During the year the following fees were charged by the auditors:

	2020 £m	2019 £m
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	**0.2**	0.2
– the audit of the Company's subsidiary accounts	**0.5**	0.4
Total audit fees	**0.7**	0.6
Fees payable to the Company's auditor and its associates for other services to the Group:		
– audit-related assurance services	**0.1**	0.1
– other assurance services	**0.1**	0.1
Total non-audit fees	**0.2**	0.2

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water's regulatory reporting requirements to Ofwat.

Details of the Group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit Committee report on pages 93 and 94. No services were provided pursuant to contingent fee arrangements.

Details of Directors' remuneration are set out in the Directors' remuneration report on pages 102 to 123.

8 EXCEPTIONAL ITEMS BEFORE TAX

	2020 £m	2019 £m
Regulated Water and Waste Water		
GMP equalisation costs	**–**	(8.9)
	–	(8.9)
Business Services		
GMP equalisation costs	**–**	(0.3)
	–	(0.3)
Corporate and other		
GMP equalisation costs	**–**	(0.4)
	–	(0.4)
Exceptional operating costs	**–**	(9.6)
Other exceptional items		
Exceptional impairment of loans receivable from joint venture (see note 22)	**(4.9)**	–
Exceptional share of net losses of joint venture (see note 20)	**(46.8)**	–
	(51.7)	(9.6)

9 EMPLOYEE NUMBERS

Average number of employees (including Executive Directors) during the year:

	2020	2019
By business segment		
Regulated Water and Waste Water	**5,824**	5,680
Business Services	**962**	889
Corporate and other	**10**	11
	6,796	6,580

10 FINANCE INCOME

	2020 £m	2019 £m
Interest income earned on bank deposits	**0.4**	0.2
Other financial income	**1.3**	7.7
Total interest receivable	**1.7**	7.9
Interest income on defined benefit scheme assets	**58.2**	61.0
	59.9	68.9

11 FINANCE COSTS

	2020 £m	2019 £m
Interest expense charged on:		
Bank loans and overdrafts	**21.6**	21.3
Other loans	**150.5**	153.0
Lease liabilities	**4.3**	4.4
Total borrowing costs	**176.4**	178.7
Other financial expenses	**2.6**	9.6
Interest cost on defined benefit scheme liabilities	**69.3**	74.8
	248.3	263.1

Borrowing costs of £44.2 million (2019: £33.2 million) incurred funding eligible capital projects have been capitalised at an interest rate of 2.68% (2019: 3.40%). Tax relief of £8.4 million (2019: £5.5 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £8.4 million (2019: £4.9 million).

12 NET (LOSSES)/GAINS ON FINANCIAL INSTRUMENTS

	2020 £m	2019 £m
Gain on swaps used as hedging instruments in fair value hedges	**5.1**	0.3
(Loss)/gain arising on debt in fair value hedges	**(1.6)**	0.5
Exchange loss on other loans	**(6.7)**	(8.1)
Loss on cash flow hedges transferred from equity	**(8.2)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**2.7**	1.9
(Loss)/gain arising on swaps where hedge accounting is not applied	**(9.8)**	28.5
Amortisation of fair value adjustment on debt	**1.1**	1.1
	(17.4)	16.0

The net loss on financial assets and liabilities mandatorily measured at fair value through profit or loss was £4.7 million (2019: gain of £28.8 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2019: nil).

The Group's hedge accounting arrangements are described in note 36.

13 TAXATION

a) Analysis of tax charge in the year

	2020 £m	2019 £m
Current tax		
Current year at 19% (2019: 19%)	**36.2**	41.2
Prior years	**(5.2)**	(9.4)
Total current tax	**31.0**	31.8
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**29.8**	30.1
Prior years	**(0.7)**	7.5
Exceptional charge on rate change	**91.8**	–
Total deferred tax	**120.9**	37.6
	151.9	69.4

b) Factors affecting the tax charge in the year

The tax expense for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
Profit before taxation	**310.7**	384.7
Tax at standard rate of corporation tax in the UK 19% (2019: 19%)	**59.0**	73.1
Tax effect of depreciation on non-qualifying assets	**1.3**	1.1
Other permanent differences	**5.7**	0.6
Current year impact of lower rate for deferred tax	**–**	(3.5)
Adjustments in respect of prior years	**(5.9)**	(1.9)
Exceptional deferred tax arising from rate change	**91.8**	–
Total tax charge	**151.9**	69.4

	2020 £m	2019 £m
Profit before taxation	**310.7**	384.7
Tax at standard rate of corporation tax in the UK 19% (2019: 19%)	**59.0**	73.1
Tax effect of depreciation on non-qualifying assets	**1.3**	1.1
Other permanent differences	**5.7**	0.6
Tax effect of accelerated capital allowances	**(26.2)**	(29.5)
Other timing differences	**(3.6)**	(4.1)
Adjustments in respect of prior years	**(5.2)**	(9.4)
Total current tax charge	**31.0**	31.8

The most significant factor impacting the Group's current tax charge is the difference between the depreciation charged on property, plant and equipment in the financial statements and the amount deductible from taxable profits in the form of capital allowances. Where the assets qualify for capital allowances this creates a temporary difference and deferred tax is recognised on the difference between the carrying amount of the asset and the amount that will be deductible for tax purposes in future years. Changes in the amount of deferred tax recognised on these assets are charged or credited to deferred tax in the income statement. Where the amount of the capital allowances received is greater than the depreciation charged this is referred to as accelerated capital allowances.

Certain of the Group's property, plant and equipment assets are not eligible for capital allowances under current legislation. Therefore there is no tax deduction that corresponds to the depreciation charged on these assets and deferred tax is not recognised in respect of this permanent difference.

Other permanent differences comprise expenditure that is not deductible for tax purposes or income that is not taxable.

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. On 11 March 2020, the UK Government announced that it would reverse the previously planned reduction in the corporation tax rate that was due to take effect from 1 April 2020. This change was substantively enacted on 17 March 2020 and we have therefore remeasured our deferred tax assets and liabilities at 31 March 2020 at the new rate of 19%. This resulted in an exceptional deferred tax charge in the income statement of £91.8 million and a credit to reserves amounting to £2.7 million.

Other timing differences comprise items other than depreciation of property, plant and equipment where the amount is included in the tax computation in a different period from when it is recognised in the income statement. Deferred tax is provided on these items.

The amounts included for tax liabilities in the financial statements include estimates and judgments relating to uncertain tax positions. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

c) Tax (credited)/charged directly to other comprehensive income or equity

In addition to the amount (credited)/charged to the income statement, the following amounts of tax have been (credited)/charged to other comprehensive income or equity:

	2020 £m	2019 £m
Current tax		
Tax on share based payments	**–**	(0.2)
Tax on pension contributions in prior periods	**(9.5)**	(9.5)
Total current tax credited to other comprehensive income or equity	**(9.5)**	(9.7)
Deferred tax		
Tax on actuarial gains	**32.9**	12.2
Tax on cash flow hedges	**(7.4)**	(1.5)
Tax on share based payments	**(0.8)**	–
Tax on transfers to the income statement	**1.6**	1.3
Tax on pension contributions in prior periods	**9.5**	9.5
Effect of change in tax rate	**(2.7)**	–
Total deferred tax charged to other comprehensive income or equity	**33.1**	21.5

14 DIVIDENDS

Amounts recognised as distributions to owners of the Company in the year:

	2020		2019	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2019 (2018)	**56.02**	**133.1**	51.92	122.9
Interim dividend for the year ended 31 March 2020 (2019)	**40.03**	**95.3**	37.35	89.0
Total dividends paid	**96.05**	**228.4**	89.27	211.9
Proposed final dividend for the year ended 31 March 2020	**60.05**	**145.0**		

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

15 EARNINGS PER SHARE

a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and those held in the Severn Trent Employee Share Ownership Trust, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the period.

Basic and diluted earnings per share are calculated on the basis of profit attributable to the owners of the Company.

The calculation of basic and diluted earnings per share is based on the following:

i) Earnings for the purpose of basic and diluted earnings per share

	2020 £m	2019 £m
Profit for the year	**158.8**	315.3

ii) Number of shares

	2020 m	2019 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.0**	236.3
Effect of dilutive potential ordinary shares:		
– share options and LTIPs	**1.4**	0.4
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.4**	236.7

b) Underlying earnings per share

	2020 pence	2019 pence
Underlying basic earnings per share	**146.0**	145.8
Underlying diluted earnings per share	**145.1**	145.6

Underlying earnings per share figures exclude the effects of deferred tax, exceptional tax, losses/gains on financial instruments, current tax related to losses/gains on financial instruments, amortisation of acquired intangible assets, exceptional items and current tax related to exceptional items. The Directors consider that the underlying figures provide a useful additional indicator of performance. The denominators used in the calculations of underlying basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings that are made in calculating underlying earnings per share are as follows:

	2020 £m	2019 £m
Earnings for the purpose of basic and diluted earnings per share	**158.8**	315.3
Adjustments for:		
– exceptional items before tax	**51.7**	9.6
– current tax on exceptional items	**(0.9)**	–
– amortisation of acquired intangible assets	**2.1**	0.7
– net losses/(gains) on financial instruments	**17.4**	(16.0)
– current tax on net losses/gains on financial instruments	**(2.6)**	(2.6)
– deferred tax	**120.9**	37.6
Earnings for the purpose of underlying basic and diluted earnings per share	**347.4**	344.6

16 GOODWILL

	2020 £m	2019 £m
Cost		
At 1 April	**90.9**	62.2
Acquisition of subsidiary (note 38)	**–**	28.7
Adjustment to provisional fair values on acquisition (note 38)	**0.5**	–
At 31 March	**91.4**	90.9

Goodwill is allocated to the Group's cash-generating units ('CGUs') identified according to the operating segment. A summary of the carrying amount of goodwill by CGU is presented below.

	2020 £m	2019 £m
Regulated Water and Waste Water	**62.2**	62.2
Business Services	**29.2**	28.7
	91.4	90.9

Regulated Water and Waste Water also has an intangible asset with indefinite useful life amounting to £4.3 million (2019: £4.3 million).

a) Regulated Water and Waste Water

On 1 July 2018 the Instruments of Appointment of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border of England and Wales. As a result, the business that the goodwill relates to is now partly in Severn Trent Water and partly in Hafren Dyfrdwy; consequently this goodwill is allocated to the Regulated Water and Waste Water CGU.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Regulated Water and Waste Water CGU was determined on the basis of fair value, through a Level 3 valuation, less costs to sell.

The fair value, determined using a discounted cash flow calculation for the Regulated Water and Waste Water segment, is based on the most recent financial projections available for the business, which cover the next AMP period, which runs to 31 March 2025. As a regulated water company, the revenues and costs within the Regulated Water and Waste Water segment are significantly influenced by the regulatory settlement for each AMP period so management considers it appropriate for the detailed projections to be coterminous with the AMP period.

The key assumptions underlying these projections are the cash flows in the projections, which are based on Ofwat's Final Determination for AMP7, and the following:

Key assumption	%
Discount rate	5.6
RPI inflation	2.8
CPI inflation	1.9
Growth rate in the period beyond the detailed projections	1.5

The discount rate is an estimate for the weighted average cost of capital at the year end date based on the nominal post-tax WACC detailed in the Ofwat PR19 Final Determination. The rate disclosed above is the equivalent pre-tax nominal rate.

Inflation has been included in the detailed projections at 2.8% and 1.9% for RPI and CPI respectively based on the Bank of England's target rate for CPI.

Cash flows beyond the end of the five-year period are extrapolated using an assumed real growth rate of 1.5% in the Group's regulatory capital base.

The fair value less costs to sell for the CGU exceeded its carrying value by £3,965 million. An increase in the discount rate to 6.5% or a reduction in the growth rate in the period beyond the detailed projections to 0.9% would reduce the recoverable amount to the carrying amount of the CGU.

16 GOODWILL (CONTINUED)

b) Agrivert

On 30 November 2018, the Group acquired Agrivert Holdings and its subsidiary undertakings resulting in goodwill of £28.7 million. Adjustments to the provisional fair value of the assets and liabilities acquired has increased the goodwill to £29.2 million at 31 March 2020. This goodwill has been allocated to the Green Power South cash-generating unit which is determined to be the lowest level of independent cash flows relating to the goodwill. Green Power South is included within the Green Power part of the Business Services segment.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Green Power South CGU was determined on the basis of a value in use calculation.

The value in use determined using a discounted cash flow calculation for the Green Power South CGU is based on the most recent financial projections available for the business to 2025.

The key assumptions underlying these projections are the cash flows in the projections and:

Key assumption	%
Discount rate	6.8
Growth rate in the period beyond the detailed projections	3.0

The discount rate was based on a review of a range of external sources of information about the cost of capital for the Severn Trent energy business. This rate was then converted to the equivalent pre-tax discount rate disclosed above.

Cash flows beyond the end of the five-year period are extrapolated using an assumed growth of 3.0% in the Group's free cash flows.

The value in use for the CGU exceeded its carrying value by £152 million. An increase in the discount rate to 12.8% or reduction in the growth rate in the period beyond the detailed projections to negative 1.4% would reduce the recoverable amount to the carrying amount of the CGU.

17 OTHER INTANGIBLE ASSETS

	Computer software				
	Internally generated £m	Purchased £m	Capitalised development costs and patents £m	Other intangible assets £m	Total £m
Cost					
At 1 April 2018	211.7	124.7	12.8	4.3	353.5
Additions	23.8	11.3	–	–	35.1
Disposals	(0.3)	(1.0)	–	–	(1.3)
Acquisition of subsidiaries	–	–	–	31.5	31.5
At 1 April 2019	235.2	135.0	12.8	35.8	418.8
Additions	44.6	17.9	–	–	62.5
At 31 March 2020	**279.8**	**152.9**	**12.8**	**35.8**	**481.3**
Amortisation					
At 1 April 2018	(173.6)	(78.7)	(12.8)	–	(265.1)
Amortisation for the year	(14.5)	(15.3)	–	(0.7)	(30.5)
Disposals	0.2	0.8	–	–	1.0
At 1 April 2019	(187.9)	(93.2)	(12.8)	(0.7)	(294.6)
Amortisation for the year	(17.4)	(13.4)	–	(2.1)	(32.9)
At 31 March 2020	**(205.3)**	**(106.6)**	**(12.8)**	**(2.8)**	**(327.5)**
Net book value					
At 31 March 2020	**74.5**	**46.3**	**–**	**33.0**	**153.8**
At 31 March 2019	47.3	41.8	–	35.1	124.2

Other intangible assets includes the Instrument of Appointment acquired with Dee Valley Water and customer contracts and energy subsidy contracts both acquired with Agrivert.

18 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2018	3,386.5	5,233.9	4,166.0	55.6	979.0	13,821.0
Additions	77.9	146.8	110.3	11.5	514.9	861.4
Transfers on commissioning	54.4	26.5	124.9	2.8	(208.6)	–
Disposals	(0.9)	(0.1)	(2.4)	(4.0)	(1.3)	(8.7)
Acquisition of subsidiary undertaking	63.2	–	6.0	0.2	–	69.4
At 31 March 2019	3,581.1	5,407.1	4,404.8	66.1	1,284.0	14,743.1
Reclassified on adoption of IFRS 16 (see note 2 a)	–	(129.2)	(381.4)	–	–	(510.6)
At 1 April 2019	3,581.1	5,277.9	4,023.4	66.1	1,284.0	14,232.5
Additions	90.1	162.9	170.7	7.9	524.4	956.0
Transfers on commissioning	95.1	56.9	152.0	1.1	(305.1)	–
Disposals	(12.2)	–	(5.4)	(7.9)	(10.5)	(36.0)
At 31 March 2020	**3,754.1**	**5,497.7**	**4,340.7**	**67.2**	**1,492.8**	**15,152.5**
Depreciation						
At 1 April 2018	(1,285.8)	(1,331.9)	(2,694.5)	(36.9)	–	(5,349.1)
Charge for the year	(85.7)	(36.8)	(188.4)	(4.5)	–	(315.4)
Disposals	0.7	–	2.4	3.9	–	7.0
At 31 March 2019	(1,370.8)	(1,368.7)	(2,880.5)	(37.5)	–	(5,657.5)
Reclassified on adoption of IFRS 16 (see note 2 a)	–	14.4	377.4	–	–	391.8
At 1 April 2019	(1,370.8)	(1,354.3)	(2,503.1)	(37.5)	–	(5,265.7)
Charge for the year	(89.7)	(39.3)	(192.6)	(5.8)	–	(327.4)
Disposals	9.5	–	5.1	7.3	–	21.9
Impairment	(0.5)	–	–	–	–	(0.5)
At 31 March 2020	**(1,451.5)**	**(1,393.6)**	**(2,690.6)**	**(36.0)**	**–**	**(5,571.7)**
Net book value						
At 31 March 2020	**2,302.6**	**4,104.1**	**1,650.1**	**31.2**	**1,492.8**	**9,580.8**
At 31 March 2019	2,210.3	4,038.4	1,524.3	28.6	1,284.0	9,085.6

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £71.0 million (2019: £42.1 million).

The adjustments to cost and accumulated depreciation arose on the adoption of IFRS 16 and represent the transfer of assets held under finance leases under IAS 17 to right-of-use assets, which are disclosed separately in note 19 under IFRS 16.

At 31 March 2019 the carrying amount of property, plant and equipment included the following amounts in respect of assets held under finance leases:

	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value			
At 31 March 2019	114.8	4.0	118.8

The net book value of land and buildings is analysed as follows:

	2020 £m	2019 £m
Freehold	**2,302.3**	2,210.0
Short leasehold	**0.3**	0.3
	2,302.6	2,210.3

19 LEASES

a) The Group's leasing activities

The Group leases various properties, equipment and vehicles. Lease agreements are typically made for fixed periods of up to 999 years but may have extension options as described in note 2 a).

Lease contracts are negotiated on an individual basis and include a wide range of terms and conditions. The contracts do not include covenants other than security interests in the leased assets that are held by the lessor and leased assets may not be used as security for other borrowing. The contracts do not impose any restrictions on dividend payment, additional debt or further leasing. There were no sale and leaseback transactions in the period.

b) Income statement

The income statement includes the following amounts relating to leases for the year ended 31 March 2020:

	2020 £m	2019 £m
Depreciation charge of right-of-use assets:		
Land and buildings	**1.4**	–
Infrastructure assets	**1.0**	–
Fixed plant and equipment	**3.6**	–
Moveable plant	**0.6**	–
Total depreciation of right-of-use assets	**6.6**	–
Interest expense included in finance cost	**4.3**	–
Expense relating to short-term leases included in operating costs	**1.1**	–
Expense relating to leases of low-value assets included in operating costs	**0.1**	–

c) Balance sheet

In the previous year the Group only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under IAS 17. See note 2 a) for adjustments recognised on adoption of IFRS 16 on 1 April 2019.

The balance sheet includes the following amounts relating to leases:

	31 March 2020 £m	1 April 2019 £m
Right-of-use assets:		
Land and buildings	**10.4**	11.7
Infrastructure assets	**113.8**	114.8
Fixed plant and equipment	**4.2**	7.8
Moveable plant	**0.4**	0.8
	128.8	135.1

Additions to right-of-use assets were £0.3 million.

	31 March 2020 £m	1 April 2019 £m
Lease liabilities:		
Current	**5.8**	6.0
Non-current	**116.9**	122.1
	122.7	128.1

At 31 March 2019 the Group leased various property plant and equipment with a carrying value of £118.8 million under finance leases expiring within 1 to 13 years. Finance lease liabilities were reclassified to lease liabilities on 1 April 2019 on the adoption of the new leasing standard – see note 2 a). Obligations under lease liabilities were as follows:

	2020 £m	2019 £m
Within 1 year	**10.1**	7.3
1 – 2 years	**10.0**	7.8
2 – 5 years	**31.2**	26.3
After more than 5 years	**112.7**	103.7
Gross obligations under finance leases	**164.0**	145.1
Less: future finance charges	**(41.3)**	(32.9)
Present value of lease obligations	**122.7**	112.2

Net obligations under finance leases were as follows:

	2020 £m	2019 £m
Within 1 year	**5.8**	4.1
1 – 2 years	**5.7**	4.1
2 – 5 years	**20.9**	16.1
After more than 5 years	**90.3**	87.9
Included in non-current liabilities	**116.9**	108.1
	122.7	112.2

d) Cash flow

The total cash outflow for leases in the year was £9.8 million which consists of £4.3 million repayments of interest and £5.5 million repayment of principal elements. This is included in financing cash flows.

20 INTERESTS IN JOINT VENTURES

Particulars of the Group's principal joint venture undertaking at 31 March 2020 were:

Name	Type	Country of incorporation	Class of share capital held	Proportion of ownership interest
Water Plus Limited	Joint venture	Great Britain	Ordinary B	50%

Water Plus is the largest business retailer in the non-household retail water market in England with close to 1 in 3 businesses in England as customers. Its principal activities are core retail services including billing, meter reading, call centre support and water efficiency advice as well as key account management services and value added solutions.

Water Plus competes in England and Scotland for customers ranging from small and medium-sized enterprises through to large corporate entities in both the private and public sectors.

Movements in our investment were as follows:

	2020 £m	2019 £m
Carrying value of joint venture investment at 1 April	**37.0**	37.6
Amortisation of discount on zero coupon loan note	**–**	(0.2)
Zero coupon loan note classified as part of net investment	**9.8**	–
Group's share of loss after tax and comprehensive loss	**(46.8)**	(0.4)
As at 31 March	**–**	37.0

In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak; the resulting lockdown; and its effects on commercial customers and expects to see lower economic activity leading to increases in business customer failures.

Water Plus has updated its business plan to take account of the expected impacts of the COVID-19 outbreak, and the impairment assessment for its long-term assets, in particular goodwill and customer relationships recognised under the acquisition accounting rules of IFRS 3. The updated impairment tests identified an impairment of £51.1 million against these assets. In addition, Water Plus has already seen a significant reduction in cash collected from its non-household customers and, using economic forecasts to estimate the likely impact of future economic circumstances on their debt book at 31 March, has recognised an additional £29.3 million bad debt provision.

20 INTERESTS IN JOINT VENTURES (CONTINUED)

Before taking account of these COVID-19 related write-downs, our share of Water Plus's loss for the year was £14.3 million, of which £9.3 million arose in the first half of the year.

We have recognised £46.8 million of our share of losses in Water Plus. Losses recognised have been capped at the level of our long-term investments in Water Plus. Unrecognised losses at 31 March 2020 were £4.9 million.

All results are from continuing operations in both the current and preceding year.

As at 31 March 2020 and 2019 the joint venture did not have any significant contingent liabilities to which the Group was exposed and, other than those set out below, the Group did not have any significant contingent liabilities in relation to its interests in the joint venture. The Group had no capital commitments in relation to its interests in the joint venture at 31 March 2020 or 2019.

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited. The guarantee in respect of liabilities to wholesalers is capped at £54.1 million (2019: £58.1 million) and the guarantees for the Severn Trent Water loan is for the amount due.

The registered office of Water Plus Limited is Two Smithfield, Leonard Coates Way, Stoke-On-Trent, ST1 4FD.

At 31 March 2020, Water Plus had current assets of £310.8 million, non-current assets of £33.3 million, current liabilities of £154.5 million and non-current liabilities of £218.1 million. Included in these amounts were cash of £7.6 million, current financial liabilities (excluding trade and other payables and provisions) of £0.6 million and non-current financial liabilities of £216.6 million.

Its revenue for the year then ended was £854.5 million and it recorded a loss for the year and total comprehensive loss of £99.1 million after depreciation and amortisation of £56.4 million, finance income of £3.2 million, finance costs of £8.2 million and a tax credit of £8.7 million.

21 CATEGORIES OF FINANCIAL ASSETS

	Note	2020 £m	2019 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**36.7**	18.0
Interest rate swaps – not hedge accounted		**4.9**	26.1
		41.6	44.1
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**23.7**	19.1
Energy hedges – cash flow hedges		**0.2**	5.3
		23.9	24.4
Total derivative financial assets		**65.5**	68.5
Financial assets at amortised cost			
Trade receivables	22	**220.1**	221.5
Accrued income	22	**241.8**	223.3
Other amounts receivable	22	**58.0**	64.6
Loans receivable from joint venture	22	**92.6**	142.0
Short-term deposits	23	**11.3**	–
Cash at bank and in hand	23	**37.3**	41.0
Total financial assets at amortised cost		**661.1**	692.4
Total financial assets		**726.6**	760.9
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**65.5**	68.4
Trade and other receivables		**11.1**	15.7
Loans receivable from joint venture		**92.6**	142.0
		169.2	226.1
Current assets			
Derivative financial assets		**–**	0.1
Trade and other receivables		**508.8**	493.7
Cash and cash equivalents		**48.6**	41.0
		557.4	534.8
		726.6	760.9

22 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Current assets		
Net trade receivables	**220.1**	221.5
Other amounts receivable	**46.9**	48.9
Contract assets	**0.7**	3.2
Prepayments	**16.0**	16.6
Net accrued income	**241.8**	223.3
	525.5	513.5
Non-current assets		
Other amounts receivable	**11.1**	15.7
Prepayments	**14.1**	14.4
Contract assets	**35.9**	31.9
Loans receivable from joint venture	**92.6**	142.0
	153.7	204.0
	679.2	717.5

The carrying values of trade and other receivables are reasonable approximations of their fair values.

a) Credit risk

(i) Trade receivables and accrued income

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the Group is Severn Trent Water Limited, which represents 91% of Group turnover and 92% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and waste water services to domestic customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

In the current and prior year, the Group's joint venture, Water Plus, was the largest retailer for non-domestic customers in the Severn Trent region. The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within note 43, Related party transactions. Credit risk is considered separately for trade receivables due from Water Plus and is considered immaterial as amounts outstanding are paid within 30 days.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables, contract assets and accrued income.

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made. Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable supportable information on the future impact of the COVID-19 outbreak on unemployment levels and hence on the Group's collection of trade receivables.

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2019: nil).

(ii) Contract assets

The contract assets represent the Group's right to receive consideration from the Ministry of Defence for services provided. On that basis the Group considers that the credit risk in relation to these assets is immaterial and therefore no provision for expected credit losses has been recognised (2019: nil).

(iii) Loans receivable from joint venture

As well as trade receivables from Water Plus the Group has advanced loans to its joint venture. These loans are assessed for impairment under the two stage impairment model in IFRS 9.

In the current year, the Group determined that there has been a significant increase in the credit risk since inception relating to its loans receivable from Water Plus of £97.5 million (2019: £142.0 million) in the light of the unforeseen significant increase in losses incurred by Water Plus in the year. The Group has therefore assessed the lifetime expected credit loss of its loans to Water Plus at 31 March 2020 (2019: 12 month expected credit loss) based on Water Plus's financial projections, taking into account the expected impact of COVID-19 in more than one scenario, as this is considered to be reasonable and supportable forward-looking information. The Group has recorded an impairment provision for expected credit losses of £4.9 million (2019: no provision recognised as risk of default was insignificant) resulting in a net loan receivable of £92.6 million (2019: £142.0 million).

22 TRADE AND OTHER RECEIVABLES (CONTINUED)

b) Expected credit loss allowance – trade receivables and accrued income

The expected credit loss at 31 March 2020 and 2019 was as set out below. The expected loss rate disclosed is calculated as the expected loss on the total amount originally billed for each age category.

2020	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	**8**	**349.8**	**(27.4)**	**322.4**
Up to 1 year past due	**33**	**60.0**	**(19.7)**	**40.3**
1 – 2 years past due	**42**	**67.4**	**(28.4)**	**39.0**
2 – 3 years past due	**47**	**43.5**	**(20.3)**	**23.2**
3 – 4 years past due	**48**	**30.4**	**(14.6)**	**15.8**
4 – 5 years past due	**61**	**22.3**	**(13.7)**	**8.6**
5 – 6 years past due	**64**	**15.7**	**(10.1)**	**5.6**
6 – 7 years past due	**48**	**8.3**	**(4.0)**	**4.3**
7 – 8 years past due	**46**	**4.1**	**(1.9)**	**2.2**
8 – 9 years past due	**50**	**1.0**	**(0.5)**	**0.5**
More than 9 years past due	**100**	**1.1**	**(1.1)**	**–**
		603.6	**(141.7)**	**461.9**

2019	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	12	326.3	(39.8)	286.5
Up to 1 year past due	40	54.9	(22.1)	32.8
1 – 2 years past due	30	57.9	(17.3)	40.6
2 – 3 years past due	30	38.7	(11.6)	27.1
3 – 4 years past due	32	27.9	(9.0)	18.9
4 – 5 years past due	32	19.7	(6.4)	13.3
5 – 6 years past due	23	20.2	(4.7)	15.5
6 – 7 years past due	54	11.1	(6.0)	5.1
7 – 8 years past due	28	5.4	(1.5)	3.9
8 – 9 years past due	64	1.4	(0.9)	0.5
More than 9 years past due	60	1.5	(0.9)	0.6
		565.0	(120.2)	444.8

Movements on the expected credit loss allowance were as follows:

	2020 £m	2019 £m
At 1 April	**120.2**	129.0
Charge for bad and doubtful debts	**42.9**	25.6
Amounts written off during the year	**(21.4)**	(34.4)
At 31 March	**141.7**	120.2

23 CASH AND CASH EQUIVALENTS

	2020 £m	2019 £m
Cash at bank and in hand	**37.3**	41.0
Short-term deposits	**11.3**	–
	48.6	41.0

Included within short-term bank deposits are security deposits for insurance obligations of £4.3 million, which are not available for use by the Group. In addition, £17.5 million (2019: £14.7 million) of cash at bank and in hand is restricted for use on the Ministry of Defence contract and is not available for use by the Group.

24 BORROWINGS

	2020 £m	2019 £m
Current liabilities		
Bank overdraft	**–**	1.4
Bank loans	**469.5**	188.7
Other loans	**0.1**	2.8
Lease liabilities	**5.8**	4.1
	475.4	197.0
Non-current liabilities		
Bank loans	**782.4**	931.4
Other loans	**5,058.4**	4,817.7
Lease liabilities	**116.9**	108.1
	5,957.7	5,857.2
	6,433.1	6,054.2

See note 35 for details of interest rates payable and maturity of borrowings.

25 CATEGORIES OF FINANCIAL LIABILITIES

	Note	2020 £m	2019 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**78.5**	94.1
Inflation swaps – not hedge accounted		**27.7**	6.2
		106.2	100.3
Derivatives designated as hedging instruments			
Interest rate swaps – cash flow hedges		**50.2**	25.8
Energy hedges – cash flow hedges		**7.2**	0.4
		57.4	26.2
Total derivative financial liabilities		**163.6**	126.5
Other financial liabilities			
Borrowings	24	**6,433.1**	6,054.2
Trade payables	26	**45.4**	32.2
Other payables	26	**23.1**	29.9
Total other financial liabilities		**6,501.6**	6,116.3
Total financial liabilities		**6,665.2**	6,242.8
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**159.2**	126.5
Borrowings		**5,957.7**	5,857.2
Other payables		**6.5**	8.4
		6,123.4	5,992.1
Current liabilities			
Derivative financial liabilities		**4.4**	–
Borrowings		**475.4**	197.0
Trade payables		**45.4**	32.2
Other payables		**16.6**	21.5
		541.8	250.7
		6,665.2	6,242.8

26 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Current liabilities		
Trade payables	**45.4**	32.2
Social security and other taxes	**7.7**	11.5
Other payables	**16.6**	21.5
Accruals	**487.6**	412.6
Deferred income	**16.3**	18.9
	573.6	496.7
Non-current liabilities		
Other payables	**6.5**	8.4
Accruals	**8.8**	0.4
Deferred income	**1,172.0**	1,074.1
	1,187.3	1,082.9
	1,760.9	1,579.6

27 DEFERRED TAX

An analysis of the movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2018	783.5	(62.1)	(42.1)	(4.1)	675.2
Charge/(credit) to income	36.3	(2.3)	5.2	(1.6)	37.6
Acquisition of subsidiary undertaking	3.8	–	–	9.4	13.2
Charge/(credit) to equity arising from rate change	–	21.7	(0.2)	–	21.5
At 31 March 2019	823.6	(42.7)	(37.1)	3.7	747.5
Adjustment on adoption of IFRS 16 (see note 2 a)	–	–	–	(0.4)	(0.4)
At 1 April 2019	823.6	(42.7)	(37.1)	3.3	747.1
Charge/(credit) to income	29.8	1.3	(1.0)	(1.0)	29.1
Charge/(credit) to income arising from rate change	96.9	(1.6)	(4.0)	0.5	91.8
Charge/(credit) to equity	–	42.4	(5.8)	(0.8)	35.8
Credit to equity arising from rate change	–	(2.3)	(0.4)	–	(2.7)
At 31 March 2020	**950.3**	**(2.9)**	**(48.3)**	**2.0**	**901.1**

The majority of the Group's deferred tax liability is expected to be recovered over more than one year. Deferred tax assets and liabilities have been offset. The offset amounts, which are expected to be recovered/settled after more than 12 months, are as follows:

	2020 £m	2019 £m
Deferred tax asset	**(51.2)**	(79.8)
Deferred tax liability	**952.3**	827.3
	901.1	747.5

28 RETIREMENT BENEFIT SCHEMES

a) Defined benefit pension schemes

(i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual. The defined benefit pension schemes (the 'Schemes') cover increases in accrued benefits arising from inflation and pension increases. Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the Schemes' beneficiaries. A formal actuarial valuation of each Scheme is carried out on behalf of the trustees at triennial intervals by an independent, professionally-qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applying in line with the Scheme rules.

The defined benefit pension schemes and the dates of their last completed formal actuarial valuations as at the accounting date are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension Scheme ('STPS')*	31 March 2019
Severn Trent Mirror Image Pension Scheme ('STMIPS')	31 March 2019
Water Companies Pension Scheme – Dee Valley Water Limited Section ('DVWS')	31 March 2017

* The STPS is by far the largest of the Group's UK defined benefit schemes, comprising over 90% of the Group's overall defined benefit obligations.

28 RETIREMENT BENEFIT SCHEMES (CONTINUED)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes

	2020 £m	2019 £m
Fair value of assets	**2,414.1**	2,418.9
Present value of the defined benefit obligations	**(2,648.1)**	(2,871.8)
	(234.0)	(452.9)
Presented on the balance sheet as:		
Retirement benefit obligation – funded schemes in surplus	**21.3**	18.6
Retirement benefit obligation – funded schemes in deficit	**(247.4)**	(462.9)
Retirement benefit obligation – unfunded schemes	**(7.9)**	(8.6)
Retirement benefit obligation – deficit total	**(255.3)**	(471.5)
Net retirement benefit obligation	**(234.0)**	(452.9)

STPS, STMIPS and DVWS	2020 £m	2019 £m
Fair value of scheme assets		
Equities	**275.6**	356.6
Corporate bonds	**925.7**	899.2
Liability-driven investment funds ('LDIs')	**720.4**	746.0
Property	**261.9**	228.2
High-yield bonds	**28.2**	31.3
Cash	**202.3**	157.6
	2,414.1	2,418.9

Most of the assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted amounting to £414.1 million. Due to the unprecedented market situation related to COVID-19, valuation of the asset categories requiring judgment (in particular, property included at £261.9 million) is subject to significant uncertainty at the balance sheet date. Consequently, a higher degree of caution should be attached to the valuation of those assets than would normally be the case.

Movements in the fair value of the scheme assets were as follows:

	2020 £m	2019 £m
Fair value at 1 April	**2,418.9**	2,339.8
Interest income on scheme assets	**58.2**	61.0
Contributions from the sponsoring companies	**46.2**	34.9
Contributions from scheme members	**0.1**	0.1
Return on plan assets (excluding amounts included in finance income)	**(0.4)**	95.9
Scheme administration costs	**(3.4)**	(2.3)
Benefits paid	**(105.5)**	(110.5)
Fair value at 31 March	**2,414.1**	2,418.9

Movements in the present value of the defined benefit obligations were as follows:

	2020 £m	2019 £m
Present value at 1 April	**(2,871.8)**	(2,859.6)
Service cost	**(0.2)**	(0.2)
Exceptional past service cost	**–**	(9.6)
Interest cost	**(69.3)**	(74.8)
Contributions from scheme members	**(0.1)**	(0.1)
Actuarial (losses)/gains arising from changes in demographic assumptions	**(49.0)**	55.7
Actuarial gains/(losses) arising from changes in financial assumptions	**222.5**	(132.7)
Actuarial gains arising from experience adjustments	**14.3**	39.0
Benefits paid	**105.5**	110.5
Present value at 31 March	**(2,648.1)**	(2,871.8)

The Group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £7.9 million (2019: £8.6 million) is included as an unfunded scheme within the retirement benefit obligation.

The Group has assessed that it has an unconditional right to a refund of any surplus assets in each of the Schemes following settlement of all obligations to Scheme members and therefore the surplus in DVWS has been recognised in full.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2020 £m	2019 £m
Amounts charged to operating costs:		
Current service cost	**(0.2)**	(0.2)
Exceptional past service cost	**–**	(9.6)
Scheme administration costs	**(3.4)**	(2.3)
	(3.6)	(12.1)
Amounts charged to finance costs:		
Interest cost	**(69.3)**	(74.8)
Amounts credited to finance income:		
Interest income on scheme assets	**58.2**	61.0
Total amount charged to the income statement	**(14.7)**	(25.9)

The actual return on scheme assets was a gain of £57.8 million (2019: £156.9 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

On 26 October 2018, the High Court issued a judgment in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgment concluded the Schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment have a potential consequence for the Schemes. The Group has estimated the cost of equalising benefits, and has allowed for this cost within the exceptional past service cost item in 2018/19. There have been no significant developments that have changed the initial estimate in the current year. Any subsequent changes to the estimate of the cost of equalising benefits in future periods will be treated as a change in actuarial assumption, and will be recognised in other comprehensive income.

(iv) Actuarial risk factors

The Schemes typically expose the Group to actuarial risks such as investment risk, inflation risk and longevity risk.

Investment risk

The Group's contributions to the Schemes are based on actuarial calculations which make assumptions about the returns expected from the Schemes' investments. If the investments underperform these assumptions in the long-term then the Group may need to make additional contributions to the Schemes in order to fund the payment of accrued benefits.

Each Scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made to both the maturity of liabilities and the funding level of that Scheme. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the Schemes have a balanced approach to investment in equity securities, debt instruments and real estate. Due to the long-term nature of the Scheme liabilities, we consider it appropriate to invest a portion of the Scheme assets in equity securities and in real estate to leverage the return generated by the fund.

28 RETIREMENT BENEFIT SCHEMES (CONTINUED)
a) Defined benefit pension schemes (continued)
(iv) Actuarial risk factors (continued)

Inflation risk
The benefits payable to members of the Schemes are linked to inflation measured by the RPI or CPI, subject to caps. The Group's contributions to the Schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Group may need to make additional contributions to the Schemes in order to fund the payment of accrued benefits.

The Schemes use LDIs within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the Schemes to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

Longevity risk
The Group's contributions to the Schemes are based on assumptions about the life expectancy of Scheme members after retirement. If Scheme members live longer than assumed in the actuarial calculations then the Group may need to make additional contributions to the Schemes in order to fund the payment of accrued benefits.

(v) Actuarial assumptions
The major financial assumptions used in the accounting valuation of the obligations for the STPS which represents by far the largest defined benefit obligation for the Group were as follows:

	2020 % p.a.	2019 % p.a.
Price inflation – RPI	**2.5**	3.2
Price inflation – CPI	**1.7**	2.2
Discount rate	**2.4**	2.5
Pension increases in payment	**2.5**	3.2
Pension increases in deferment	**2.5**	3.2

The assumption for RPI price inflation is derived from the difference between the yields on longer-term fixed rate gilts and on index-linked gilts.

In setting our discount rate, we construct a yield curve. Short-dated yields are taken from market rates for AA corporate bonds. Long-dated yields for the curve are based on the average yield available on all long-dated AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate taking account of the constructed yield curve.

The mortality assumptions are based on those used in the latest triennial funding valuations. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 65 implied by the assumptions are as follows for the STPS:

	2020		2019	
	Men	**Women**	Men	Women
Mortality table used	**S3PA_L**	**S3PA_M**	S2NMA	S2NFA
Mortality table compared with standard table	**112%**	**95%**	95%	99%
Mortality projections	**CMI 2019**	**CMI 2019**	CMI 2018	CMI 2018
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Remaining life expectancy for members currently aged 65 (years)	**22.2**	**23.9**	21.9	23.6
Remaining life expectancy at age 65 for members currently aged 45 (years)	**23.1**	**25.1**	22.9	24.8

The calculation of the Scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant:

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate[1]	Increase/decrease by 0.1% p.a.	Decrease/increase by £41/£42 million
Price inflation[2]	Increase/decrease by 0.1% p.a.	Increase/decrease by £36/£35 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £97 million

1 A change in discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the Schemes.

2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant pension increases.

3 The change in this assumption is based on triennial valuations and reflect the fact that life expectancy rates might increase.

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

(vi) Effect on future cash flows

Contribution rates are set in consultation with the Trustees for each Scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 16 years for STPS and STMIPS (2019: 16 years) and 14 years for DVWS (2019: 15 years).

The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2019 for the STPS and STMIPS schemes and 31 March 2017 for DVWS. As a result of the STPS and STMIPS actuarial valuations, deficit reduction contributions of £32.4 million, increasing in line with CPI inflation until 31 March 2027, were agreed. Payments of £8.2 million per annum through an asset backed funding arrangement will continue to 31 March 2032. Further inflation linked payments of £15.0 million per annum are being made through an additional asset backed funding arrangement, with payments having started in the financial year ended 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of STPS show that these contributions are no longer needed.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for its UK employees.

The total cost charged to operating costs of £25.6 million (2019: £23.4 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the Scheme. As at 31 March 2020, no contributions (2019: nil) in respect of the current reporting period were owed to the Schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which was material in either the current or prior year.

29 PROVISIONS

	Restructuring £m	Insurance £m	Other £m	Total £m
At 31 March 2019	0.3	23.4	27.7	51.4
Recognised on adoption of IFRS 16 (see note 2 a)	–	–	2.4	2.4
At 1 April 2019	0.3	23.4	30.1	53.8
(Credited)/charged to income statement	–	(1.4)	4.5	3.1
Utilisation of provision	(0.3)	(3.0)	(9.8)	(13.1)
Unwinding of discount	–	–	0.2	0.2
Reclassifications	–	2.5	(2.5)	–
At 31 March 2020	**–**	**21.5**	**22.5**	**44.0**

	2020 £m	2019 £m
Included in:		
Current liabilities	**18.9**	32.2
Non-current liabilities	**25.1**	19.2
	44.0	51.4

Insurance includes provisions in respect of Lyra Insurance Guernsey Limited, a captive insurance company and a wholly owned subsidiary of the Group, and insurance deductions in Severn Trent Water Limited. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations, commercial disputes, either from continuing or discontinued operations, and potential environmental claims. The associated outflows are estimated to arise over a period up to 10 years from the balance sheet date.

30 SHARE CAPITAL

	2020 £m	2019 £m
Total issued and fully paid share capital		
241,537,324 Ordinary Shares of 97 17/19 pence (2019: 240,943,929)	**236.5**	235.9

At 31 March 2020, 3,581,338 treasury shares (2019: 3,774,921) were held at a nominal value of £3.5 million (2019: £3.7 million).

Changes in share capital were as follows:

	Number	£m
Ordinary Shares of 97 17/19 pence		
At 1 April 2018	240,222,617	235.1
Shares issued under the Employee Sharesave Scheme	721,312	0.8
At 1 April 2019	240,943,929	235.9
Shares issued under the Employee Sharesave Scheme	593,395	0.6
At 31 March 2020	**241,537,324**	**236.5**

31 SHARE PREMIUM

	2020 £m	2019 £m
At 1 April	**128.0**	117.7
Share premium arising on issue of shares for Employee Sharesave Scheme	**9.0**	10.3
At 31 March	**137.0**	128.0

32 OTHER RESERVES

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2018	157.1	(64.1)	93.0
Total comprehensive income for the year	–	(0.2)	(0.2)
At 1 April 2019	157.1	(64.3)	92.8
Total comprehensive income for the year	–	(24.9)	(24.9)
At 31 March 2020	**157.1**	**(89.2)**	**67.9**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1.

33 CAPITAL MANAGEMENT

The Group's principal objectives in managing capital are:

- to maintain a flexible and sustainable balance sheet structure;
- to maintain an investment-grade credit rating;
- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise exposure to counterparty credit risk; and
- to provide the Group with an appropriate degree of certainty as to its foreign exchange exposure.

The Group seeks to achieve a balance of long-term funding or commitment of funds across a range of funding sources at the best possible economic cost. The Group monitors future funding requirements and credit market conditions to ensure continued availability of funds.

The Group has continued to monitor market conditions and reduce its exposure to low floating interest rates, which comprises 12% (2019: 22%) of our gross debt portfolio at the balance sheet date, with a further 24% (2019: 25%) of index-linked debt and 64% (2019: 53%) of fixed rate debt.

Exposure to credit risk (excluding credit risk relating to amounts receivable from contracts with customers) is set out in note 35 b).

Foreign exchange risk is set out in note 35 a) (ii). At 31 March 2020 the Group had the following credit ratings:

	Moody's	Standard and Poor's
Severn Trent Plc	Baa2	BBB
Severn Trent Water	Baa1	BBB+

The ratings were stable.

A key metric in measuring financial sustainability and capital efficiency for companies in the water sector is RCV gearing. This is measured as net debt divided by Regulatory Capital Value (RCV). The Group aims to main its RCV gearing ratio close to the Ofwat assumption at the Price Review (62.5% for AMP 6 and 60% for AMP 7). At 31 March 2020 the Group's RCV gearing ratio was 64.9% (2019: 63.0%) and for Severn Trent Water it was 64.4% (2019: 62.3%).

The Group's dividend policy is a key tool in achieving its capital management objectives. This policy is reviewed and updated in line with Severn Trent Water's five-year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment-grade credit rating, and delivering an attractive and sustainable return to shareholders. The Board has decided to set the 2019/20 dividend at 100.08 pence, an increase of 7.2% compared with the total dividend for 2018/19 of 93.37 pence. Our policy is to grow the dividend annually at no less than CPIH until March 2025.

The Group's capital at 31 March was:

	2020 £m	2019 £m
Net cash and cash equivalents	**48.6**	39.6
Bank loans	**(1,251.9)**	(1,120.1)
Other loans	**(5,058.5)**	(4,820.5)
Lease liabilities	**(122.7)**	(112.2)
Cross currency swaps	**60.4**	37.1
Loans receivable from joint venture	**92.6**	142.0
Net debt	**(6,231.5)**	(5,834.1)
Equity attributable to owners of the Company	**(1,243.7)**	(1,164.1)
Total capital	**(7,475.2)**	(6,998.2)

34 FAIR VALUES OF FINANCIAL INSTRUMENTS

a) Fair value measurements

The valuation techniques that the Group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 – 3 based on the degree to which the fair value is observable. The Group's valuation techniques are Level 2 unless otherwise stated below:

	2020 £m	2019 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow.
Assets	**60.4**	37.1	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Interest rate swaps			Discounted cash flow.
Assets	**4.9**	26.1	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(128.7)**	(119.9)	
Energy swaps			Discounted cash flow.
Assets	**0.2**	5.3	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(7.2)**	(0.4)	
Inflation swaps			Discounted cash flow.
Liabilities	**(27.7)**	(6.2)	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI ('the wedge'). Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.
Contingent consideration	**(3.0)**	(3.0)	Management estimate of the amount that is likely to be payable. This is considered to be a Level 3 valuation technique. The contingent consideration arose on the acquisition of Agrivert (note 38).

Changes in the carrying values of instruments that are measured using a Level 3 technique were as follows:

	Inflation swaps £m	Contingent consideration £m
At 1 April 2018	(2.8)	–
Losses recognised in profit or loss	(3.4)	–
Recognised on acquisition of subsidiary	–	(3.0)
At 31 March 2019	(6.2)	(3.0)
Losses recognised in profit or loss	(21.5)	–
At 31 March 2020	**(27.7)**	**(3.0)**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A reduction of 10bps in the CPI wedge would result in an increase in the carrying value of £7.9 million and an increase of 10bps in the CPI wedge would result in a decrease in the carrying value of £7.9 million. This sensitivity is assuming no change to any other inputs.

b) Comparison of fair value of financial instruments with their carrying amounts

The Directors consider that the carrying amounts of all financial instruments, except those disclosed in the table below, approximate to their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	2020		2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	948.9	947.1	818.1	818.3
Other loans	187.2	180.9	185.6	185.9
	1,136.1	1,128.0	1,003.7	1,004.2
Fixed rate debt				
Bank loans	182.2	182.1	184.1	183.3
Other loans	3,472.8	3,903.1	3,267.2	3,667.0
Finance leases	–	–	112.2	119.6
Lease liabilities	122.7	129.5	–	–
	3,777.7	4,214.7	3,563.5	3,969.9
Index-linked debt				
Bank loans	120.8	138.0	117.9	126.7
Other loans	1,398.5	1,904.2	1,367.7	2,171.6
	1,519.3	2,042.2	1,485.6	2,298.3
	6,433.1	7,384.9	6,052.8	7,272.4

The above classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate loans are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked loans are rarely traded and therefore quoted prices are not considered a reliable indicator of fair value. Therefore, these loans are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 2 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models with discount rates derived from observed market prices, which is a Level 2 valuation technique.

35 RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks:

- market risk (including interest rate risk, exchange rate risk and other price risk);
- credit risk;
- liquidity risk; and
- inflation risk.

The Group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance or position.

Financial risks are managed by a central treasury department ('Group Treasury') under policies approved by the Board of Directors. The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary. Group Treasury operates under the Group's Treasury Procedures Manual and Policy Statement and identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The Group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the Group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the Group's exposure to changes in market interest rates. Further details are set out in section a) (i) and note 36 b) (i).

Cross currency swaps are held to mitigate the Group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) and 36 a) (i).

Energy swaps are held to mitigate the Group's exposure to changes in electricity prices. Further details are provided in note 36 b) (ii).

Severn Trent Water, the Group's most significant business unit, operates under a regulatory environment where its prices are linked to inflation measured by CPI. In order to mitigate the risks to cash flow and earnings arising from fluctuations in CPI, the Group holds debt instruments where the principal repayable and interest cost is linked to RPI and the Group holds RPI/CPI swaps to mitigate the risk of divergence between RPI and CPI inflation.

35 RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

a) Market risk

The Group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the Group has taken to manage them are described below.

(i) Interest rate risk

The Group's annual income and its operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings.

Borrowings issued at variable rates expose the Group to the risk of adverse cash flow impacts from increases in interest rates.

Borrowings issued at fixed rates expose the Group to the risk of interest costs above the market rate when interest rates decrease.

The Group's policy is to maintain 40% to 70% of its interest-bearing liabilities in fixed rate instruments during AMP6. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2020 £m	2019 £m
Net debt (note 39)	**6,231.5**	5,834.1
Cash and cash equivalents	**48.6**	41.0
Loans receivable from joint venture	**92.6**	142.0
Cross currency swaps included in net debt at fair value	**60.4**	37.1
Fair value hedge accounting adjustments	**(29.3)**	(28.8)
Exchange on currency debt not hedge accounted	**(23.1)**	(16.7)
Interest bearing financial liabilities	**6,380.7**	6,008.7

The Group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates or by using interest rate swaps. Under these swaps the Group receives variable rate interest and pays fixed rate interest calculated by reference to the agreed notional principal amounts. In practice the swaps are settled by transferring the net amount. These swaps have the economic effect of converting borrowings from variable rates to fixed rates. The Group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030.

The following tables show analyses of the Group's interest-bearing financial liabilities by type of interest. Debt which is hedged by interest rate swaps or cross currency swaps is included in the category after taking account of the impact of the swap. Debt raised in foreign currencies has been included at the notional sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates.

Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis.

The net principal amount of unhedged swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the swaps on the amount of liabilities bearing fixed interest.

2020	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(948.9)	(182.2)	(120.8)	(1,251.9)
Other loans	(187.2)	(3,420.4)	(1,398.5)	(5,006.1)
Lease liabilities	–	(122.7)	–	(122.7)
	(1,136.1)	**(3,725.3)**	**(1,519.3)**	**(6,380.7)**
Impact of swaps not matched against specific debt instruments	126.6	(126.6)	–	–
Interest-bearing financial liabilities	**(1,009.5)**	**(3,851.9)**	**(1,519.3)**	**(6,380.7)**
Proportion of interest-bearing financial liabilities that are fixed		**60%**		
Weighted average interest rate of fixed debt		**4.07%**		
Weighted average period for which interest is fixed (years)		**8.6**		

2019	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Overdrafts	(1.4)	–	–	(1.4)
Bank loans	(818.1)	(184.1)	(117.9)	(1,120.1)
Other loans	(169.1)	(3,238.3)	(1,367.6)	(4,775.0)
Finance leases	–	(112.2)	–	(112.2)
	(988.6)	(3,534.6)	(1,485.5)	(6,008.7)
Impact of swaps not matched against specific debt instruments	(348.4)	348.4	–	–
Interest-bearing financial liabilities	(1,337.0)	(3,186.2)	(1,485.5)	(6,008.7)
Proportion of interest-bearing financial liabilities that are fixed		53%		
Weighted average interest rate of fixed debt		4.19%		
Weighted average period for which interest is fixed (years)		8.8		

Interest rate swaps not hedge accounted
The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a charge of £7.0 million (2019: credit of £19.7 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2020 %	2019 %	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Pay fixed rate interest						
2 – 5 years	**5.10**	4.98	**(200.0)**	(150.0)	**(41.4)**	(25.8)
5 – 10 years	**–**	5.14	**–**	(150.0)	**–**	(34.9)
10 – 20 years	**5.46**	5.45	**(75.0)**	(75.0)	**(37.1)**	(33.4)
	5.20	5.13	**(275.0)**	(375.0)	**(78.5)**	(94.1)
Receive fixed rate interest						
5 – 10 years	**–**	3.36	**–**	225.0	**–**	15.8
10 – 20 years	**2.75**	2.75	**50.0**	400.0	**4.9**	10.3
	2.75	2.97	**50.0**	625.0	**4.9**	26.1
			(225.0)	250.0	**(73.6)**	(68.0)

In addition to the above the Group has cross currency swaps that also swap fixed rate interest to floating (see below).

Interest rate sensitivity analysis
The sensitivity after tax of the Group's profits, cash flow and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	2020		2019	
	1.0% £m	**-1.0% £m**	1.0% £m	-1.0% £m
Profit or loss	**6.2**	**(7.0)**	**(48.5)**	**54.3**
Cash flow	**(7.8)**	**7.8**	**(10.8)**	**10.8**
Equity	**6.2**	**(7.0)**	**(48.5)**	**54.3**

(ii) Exchange rate risk
Except for debt raised in foreign currency, which is hedged, the Group's business does not involve significant exposure to foreign exchange transactions. Substantially all of the Group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, and therefore the sensitivity of the Group's results to changes in exchange rates is not material.

Certain of the Group's subsidiaries enter into transactions in currencies other than the functional currency of the operation. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency. These contracts led to no charge (2019: nil) in the income statement.

In order to meet its objective of accessing a broad range of sources of finance, the Group has raised debt denominated in currencies other than sterling. In order to mitigate the Group's exposure to exchange rate fluctuations, cross currency swaps were entered into at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 36 a) (i).

35 RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)
a) Market risk (continued)
(ii) Exchange rate risk (continued)
The Group also has cross currency swaps with a sterling notional value of £98.3 million (2019: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency and also swap the interest from fixed rate to floating, but they are not designated hedges under IFRS 9. This has led to a credit of £18.6 million (2019: £12.2 million) in the income statement, which is partly offset by the exchange loss of £5.6 million (2019: £8.6 million) on the underlying debt.

The Group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the Group's exposure to exchange rate risk in relation to its currency borrowings.

2020	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	**(19.9)**	**(180.0)**	**(2.0)**
Cross currency swaps – hedge accounted	**19.9**	**30.0**	**2.0**
Cross currency swaps – not hedge accounted	**–**	**150.0**	**–**
Net currency exposure	**–**	–	**–**

2019	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	(20.1)	(180.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	30.0	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	(0.2)	–	–

b) Credit risk
Operationally the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, whose operating licences oblige them to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 22.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board. The Group has policies that limit the amount of credit exposure to any one financial institution.

Credit risk analysis
At 31 March the aggregate credit limits of authorised counterparties and the amounts held on short-term deposits were as follows:

	Credit limit		Amount deposited	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Double A range	**15.0**	105.0	**–**	–
Single A range	**800.0**	700.0	**11.3**	–
Below single A range	**–**	–	**–**	–
	815.0	805.0	**11.3**	–

Values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2020 £m	2019 £m
Double A range	**4.9**	1.4
Single A range	**60.6**	67.1
Below single A range	**–**	–
	65.5	68.5

The Group's maximum exposure to credit risk is the carrying amount of financial assets detailed in note 21, which is net of impairment losses.

c) Liquidity risk

(i) Committed facilities

Prudent liquidity management requires sufficient cash balances to be maintained; adequate committed facilities to be available; and the ability to close out market positions. Group Treasury manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities, and by keeping committed credit lines available.

At the balance sheet date the Group had committed undrawn borrowing facilities expiring as follows:

	2020 £m	2019 £m
2 – 5 years	**755.0**	885.0

(ii) Cash flows from non-derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's non-derivative net financial liabilities. The information presented is based on the earliest date on which the Group can be required to pay and represents the undiscounted cash flows including principal and interest.

Interest and inflation assumptions are based on prevailing market conditions at the year end date.

2020 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(330.1)	(287.8)	(27.6)	(62.0)	(707.5)
1 – 2 years	(10.8)	(383.2)	(28.3)	(6.5)	(428.8)
2 – 5 years	(662.6)	(918.6)	(226.8)	–	(1,808.0)
5 – 10 years	(128.2)	(1,936.5)	(510.3)	–	(2,575.0)
10 – 15 years	(49.0)	(752.3)	(213.0)	–	(1,014.3)
15 – 20 years	–	(309.9)	(146.5)	–	(456.4)
20 – 25 years	–	(487.5)	(177.4)	–	(664.9)
25 – 30 years	–	–	(210.6)	–	(210.6)
30 – 35 years	–	–	(642.8)	–	(642.8)
35 – 40 years	–	–	(3,181.2)	–	(3,181.2)
40 – 45 years	–	–	(21.6)	–	(21.6)
45 – 50 years	–	–	(280.3)	–	(280.3)
Total	**(1,180.7)**	**(5,075.8)**	**(5,666.4)**	**(68.5)**	**(11,991.4)**

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short-term deposits £m	Receipts from financial assets £m
Within 1 year	2.9	508.8	48.6	560.3
1 – 2 years	99.4	11.1	–	110.5
Total	**102.3**	**519.9**	**48.6**	**670.8**

35 RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)
c) Liquidity risk (continued)
(ii) Cash flows from non-derivative financial instruments (continued)

2019 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(202.2)	(122.8)	(28.8)	(53.7)	(407.5)
1 – 2 years	(14.4)	(276.4)	(30.9)	(8.4)	(330.1)
2 – 5 years	(352.3)	(1,165.6)	(321.6)	–	(1,839.5)
5 – 10 years	(469.2)	(1,359.6)	(412.3)	–	(2,241.1)
10 – 15 years	(50.8)	(1,206.0)	(217.9)	–	(1,474.7)
15 – 20 years	–	(246.1)	(145.6)	–	(391.7)
20 – 25 years	–	(413.4)	(176.3)	–	(589.7)
25 – 30 years	–	–	(208.5)	–	(208.5)
30 – 35 years	–	–	(652.7)	–	(652.7)
35 – 40 years	–	–	(3,248.6)	–	(3,248.6)
40 – 45 years	–	–	(22.8)	–	(22.8)
45 – 50 years	–	–	(358.6)	–	(358.6)
Total	(1,088.9)	(4,789.9)	(5,824.6)	(62.1)	(11,765.5)

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short-term deposits £m	Receipts from financial assets £m
Within 1 year	2.5	493.7	41.0	537.2
1 – 2 years	144.6	15.7	–	160.3
Total	147.1	509.4	41.0	697.5

Index-linked debt includes loans with maturities up to 50 years. The principal is revalued at fixed intervals and is linked to movements in the RPI. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

(iii) Cash flows from derivative financial instruments
The following tables show the estimated cash flows that will arise from the Group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

	Derivative liabilities			Derivative assets				
						Cross currency swaps		
2020	**Interest rate swaps £m**	**Inflation swaps £m**	**Energy swaps £m**	**Interest rate swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	(16.2)	–	(2.8)	0.3	–	6.6	(2.8)	(14.9)
1 – 2 years	(20.1)	0.1	(2.6)	0.5	–	6.6	(2.6)	(18.1)
2 – 5 years	(54.1)	0.6	(1.9)	1.5	0.2	19.9	(8.1)	(41.9)
5 – 10 years	(39.8)	(2.8)	–	2.1	–	196.0	(148.6)	6.9
10 – 15 years	(5.7)	2.3	–	0.8	–	–	–	(2.6)
15 – 20 years	–	(28.7)	–	–	–	–	–	(28.7)
	(135.9)	**(28.5)**	**(7.3)**	**5.2**	**0.2**	**229.1**	**(162.1)**	**(99.3)**

2019	Derivative liabilities Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Derivative assets Interest rate swaps £m	Energy swaps £m	Cross currency swaps Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(28.6)	–	–	16.7	0.1	6.2	(3.2)	(8.8)
1 – 2 years	(15.6)	–	–	0.3	0.6	6.2	(3.2)	(11.7)
2 – 5 years	(44.9)	(0.3)	(0.4)	0.6	4.7	18.3	(9.7)	(31.7)
5 – 10 years	(31.8)	(1.7)	–	0.4	–	164.7	(144.1)	(12.5)
10 – 15 years	(7.5)	(2.5)	–	(0.1)	–	16.9	(8.6)	(1.8)
15 – 20 years	–	10.4	–	–	–	–	–	10.4
	(128.4)	5.9	(0.4)	17.9	5.4	212.3	(168.8)	(56.1)

d) Inflation risk

The Group's principal operating subsidiary, Severn Trent Water, operates under a regulatory environment where its prices are linked to inflation (for the period to 31 March 2020 as measured by RPI). Its operating profits and cash flows are therefore exposed to changes in inflation. In order to mitigate and partially offset this risk, Severn Trent Water has raised debt which pays interest at a fixed coupon based on a principal amount that is adjusted for the change in inflation during the life of the debt instrument ('index-linked debt'). The amount of index-linked debt at the balance sheet date is shown in section a) (i) Interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) Cash flows from non-derivative financial instruments.

Ofwat has announced its plans to move the measure of inflation used in the economic regulatory model from RPI to CPIH over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £350 million (2019: £250 million) in order to mitigate the risk of divergence between inflation measured by CPIH and that measured by RPI.

Inflation rate sensitivity analysis

The finance cost of the Group's index-linked debt instruments varies with changes in CPI/RPI rather than interest rates. The sensitivity at 31 March of the Group's profit and equity to changes in CPI/RPI is set out in the following table. This analysis relates to financial instruments only and excludes any RPI impact on Severn Trent Water's revenues and Regulatory Capital Value, or accounting for defined benefit pension schemes.

	2020 **+1.0% £m**	**-1.0% £m**	2019 +1.0% £m	-1.0% £m
Profit or loss	**(12.3)**	**12.3**	(10.6)	10.6
Equity	**(12.3)**	**12.3**	(10.6)	10.6

36 HEDGE ACCOUNTING

The Group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IFRS 9 are met. Hedge ineffectiveness arises from credit risk, which is not hedged.

a) Fair value hedges

(i) Cross currency swaps

The Group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR in order to mitigate the Group's exposure to exchange rate fluctuations. Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges.

At the year end the amounts of cross currency swaps designated as fair value hedges were as follows:

	Notional principal amount **2020 £m**	2019 £m	**Fair value** **2020 £m**	2019 £m
Euro	**11.4**	11.4	**10.1**	10.1
US dollar	**23.2**	23.2	**3.4**	0.2
Yen	**8.5**	8.5	**10.2**	8.8
	43.1	43.1	**23.7**	19.1

36 HEDGE ACCOUNTING (CONTINUED)
b) Cash flow hedges
(i) Interest rate swaps

The Group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2020 %**	2019 %	**2020 £m**	2019 £m	**2020 £m**	2019 £m
5 – 10 years	**2.57**	2.63	**132.2**	135.2	**(15.3)**	(10.9)
10 – 20 years	**1.83**	1.83	**298.0**	298.0	**(34.9)**	(14.9)
	2.06	2.08	**430.2**	433.2	**(50.2)**	(25.8)

The Group recognised a gain on hedge ineffectiveness of £2.7 million (2019: £1.9 million) in losses/gains on financial instruments in the income statement in relation to interest rate swaps.

(ii) Energy swaps

The Group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up to March 2025.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
Period to maturity	**2020 £/MWh**	2019 £/MWh	**2020 MWh**	2019 MWh	**2020 £m**	2019 £m
Less than 1 year	**44.7**	48.6	**372,240**	21,955	**(4.4)**	0.1
1 – 2 years	**43.1**	44.7	**372,240**	372,240	**(1.6)**	2.0
2 – 5 years	**44.6**	43.7	**459,720**	788,280	**(1.0)**	2.7
5 – 10 years	**–**	47.7	**–**	43,680	**–**	0.1
	44.2	44.2	**1,204,200**	1,226,155	**(7.0)**	4.9

At the year end the cumulative fair value adjustments arising from the corresponding continuing hedge relationships were as follows:

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
2020	**Assets £m**	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Cross currency swaps	**–**	**(65.4)**	**–**	**(19.5)**
Interest rate swaps	**–**	**(180.0)**	**–**	**–**
	–	**245.4**	**–**	**(19.5)**

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
2019	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Cross currency swaps	–	(60.9)	–	(17.9)
Interest rate swaps	–	(181.9)	–	–
	–	(242.8)	–	(17.9)

£65.4 million (2019: £60.9 million) of the carrying amount of hedged items and £19.5 million (2019: £17.9 million) of the cumulative amount of fair value adjustments on the hedged items relates to fair value hedges. The remainder relates to cash flow hedges.

Amendments to IFRS 9

From 1 April 2019, the Group has early adopted the amendments to IFRS 7 and IFRS 9 introduced to provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the planned replacement of benchmark interest rates such as LIBOR.

The Group is exposed to GBP LIBOR, which is subject to interest rate benchmark reform within its hedge accounting relationships. The hedged items include issued sterling, Euro and Yen denominated fixed rate debt and issued sterling denominated floating rate debt.

As well as the benchmark interest rate exposures described in note 35, the Group has derivative financial instruments in its trading books that are not included in hedge accounting relationships. Given hedge accounting is not applied, there is no accounting relief. The fair value of these financial assets and liabilities reflects the uncertainties arising from the interest rate benchmark reforms.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has established a LIBOR transition group within Group Treasury with an objective of identifying and assessing LIBOR exposures within the business and developing and delivering an action plan to enable a smooth transition to alternative benchmark rates. The Group aims to have its transition and fall-back plans in place by the end of this financial year.

None of the Group's current GBP LIBOR-linked contracts include adequate and robust fall-back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall-back language for different instruments and different IBORs, which the Group is monitoring closely and will look to implement these when appropriate.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements during this financial year.

For the Group's floating rate debt, we will seek to refinance our committed bank facilities, including our Revolving Credit Facility, ahead of the LIBOR transition. The Group will begin a dialogue with our other lenders, comprising bank lenders and USPP noteholders during this financial year to propose amendments to the fall-back provisions to move from GBP LIBOR to SONIA.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9/IAS 39 amendments due to interest rate benchmark reform, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Below are the details of the cash flow hedging instruments and hedged items:

Instrument type	Instrument details	Maturing in	Nominal £m	Hedged item
Interest rate swaps	Pay sterling fixed, receive 6m GBP LIBOR	2027	32.2	6m GBP LIBOR debt with same maturity and nominal as the swap
	Pay sterling fixed, receive 6m GBP LIBOR	2027	50.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2028	50.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2031	48.0	
Forward-starting interest rate swaps	Pay sterling fixed, receive 6m GBP LIBOR	2030	50.0	Forecast interest payments on debt with the same nominal as the swap
	Pay sterling fixed, receive 6m GBP LIBOR	2030	150.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2030	50.0	

Below are the details of the fair value hedging instruments and hedged items:

Instrument type	Instrument details	Maturing in	Nominal	Hedged item
Cross currency swaps	Receive JPY fixed, pay 6m GBP LIBOR	2029	¥2bn	Fixed JPY debt with same maturity and nominal as the swap
	Receive EUR fixed, pay 6m GBP LIBOR	2025	€19.9m	Fixed EUR debt with same maturity and nominal as the swap

The Group will continue to apply the amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify: the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate, and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall back clauses that have yet to be added to the Group's contracts and the negotiation with lenders and bondholders.

37 SHARE BASED PAYMENT

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £8.1 million (2019: £8.1 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £22.07 (2019: £19.27).

At 31 March 2020, there were no options exercisable (2019: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plans (LTIPs)

Under the Long Term Incentive Plan ('LTIP'), conditional awards of shares may be made to Executive Directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period.

(i) Awards made under the LTIP

The 2016, 2017, 2018 and 2019 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulated Equity in excess of the level included in the Severn Trent Water business plans over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2019: 100%).

37 SHARE BASED PAYMENT (CONTINUED)
a) Long Term Incentive Plans (LTIPs) (continued)
(ii) Awards outstanding
Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Opening at 1 April 2018	548,774
Granted during the year	272,057
Vested during the year	(159,463)
Lapsed during the year	(35,945)
Outstanding at 1 April 2019	625,423
Granted during the year	281,905
Vested during the year	(174,445)
Lapsed during the year	(14,732)
Outstanding at 31 March 2020	**718,151**

Details of LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal date of vesting	2020	2019
July 2016	2019	–	175,543
July 2017	2020	**181,070**	181,070
July 2018	2021	**266,178**	268,810
July 2019	2022	**270,903**	–
		718,151	625,423

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 103 and 104.

b) Employee Sharesave Scheme
Under the terms of the Sharesave Scheme, the Board may grant the right to purchase Ordinary Shares in the Company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

Options outstanding
Details of changes in the number of options outstanding during the year are set out below:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2018	3,574,931	1,625p
Granted during the year	1,331,044	1,474p
Forfeited during the year	(58,285)	1,663p
Cancelled during the year	(405,861)	1,654p
Exercised during the year	(721,312)	1,532p
Lapsed during the year	(6,000)	1,575p
Outstanding at 1 April 2019	3,714,517	1,585p
Granted during the year	1,042,857	1,787p
Forfeited during the year	(46,040)	1,586p
Cancelled during the year	(152,843)	1,564p
Exercised during the year	(593,395)	1,621p
Lapsed during the year	(9,074)	1,623p
Outstanding at 31 March 2020	**3,956,022**	**1,633p**

Sharesave options outstanding at 31 March were as follows:

Date of grant	Normal date of exercise	Option price	Number of awards 2020	Number of awards 2019
January 2014	2019	1,331p	–	144,212
January 2015	2020	1,584p	**215,914**	227,212
January 2016	2019 or 2021	1,724p	**117,428**	556,447
January 2017	2020 or 2022	1,633p	**625,429**	662,545
January 2018	2021 or 2023	1,652p	**740,496**	804,957
January 2019	2022 or 2024	1,474p	**1,219,105**	1,319,144
January 2020	2023 or 2025	1,787p	**1,037,650**	–
			3,956,022	3,714,517

c) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the Black Scholes method. The principal assumptions and data are set out below:

	2020			2019		
	LTIP	SAYE		LTIP	SAYE	
		3-year scheme	5-year scheme		3-year scheme	5-year scheme
Share price at grant date (pence)	**2,026**	**2,515**	**2,515**	1,884	1,849	1,849
Option life (years)	**3**	**3.5**	**5.5**	3	3.5	5.5
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18.2	18.2	18.2
Expected dividend yield (%)	**5.0**	**5.0**	**5.0**	4.0	4.0	4.0
Risk free rate (%)	**n/a**	**0.5**	**0.6**	n/a	0.6	0.8
Fair value per share (pence)	**2,007**	**489**	**416**	1,866	303	284

Expected volatility is measured over the three years prior to the date of grant of the awards or share options.

Volatility has been calculated based on historical share price movements.

The risk free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

38 ACQUISITIONS

On 30 November 2018, Severn Trent Green Power Limited acquired 100% of the issued share capital of Agrivert Holdings Limited, for a total consideration of £61.3 million and the assumption of £59.7 million of existing debt.

The acquisition was accounted for using the acquisition method. Goodwill of £28.7 million was capitalised, attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition. The goodwill valuation was based on management's best estimates of the fair values of the assets and liabilities acquired.

As outlined by IFRS 3, management has until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria. The adjustments to fair values recognised at 31 March 2020 are set out below:

	£m
Goodwill recognised at 1 April 2019 based on provisional fair values	28.7
Adjustment to estimated fair value of trade and other receivables	0.5
Goodwill recognised at 31 March 2020 based on final fair values	**29.2**

During the 12 month period post-acquisition, new information was obtained regarding accrued income held within the entities acquired. This new information related to disputed amounts and amounts that relate to debtors that had gone into administration. The provision for the doubtful collection of accrued income as at the acquisition date has therefore been adjusted in the fair values of trade and other receivables on acquisition.

See note 16 for reconciliation of goodwill recognised for the Group.

39 CASH FLOW STATEMENT

a) Reconciliation of operating profit to operating cash flows

	2020 £m	2019 £m
Profit before interest and tax	**568.2**	563.3
Depreciation of property, plant and equipment	**327.4**	315.4
Depreciation of right-of-use assets	**6.6**	–
Amortisation of intangible assets	**30.8**	29.8
Amortisation of acquired intangible assets	**2.1**	0.7
Impairment of property, plant and equipment	**0.5**	–
Pension service cost	**0.2**	9.8
Defined benefit pension scheme administration costs	**3.4**	2.3
Defined benefit pension scheme contributions	**(46.2)**	(34.9)
Share based payment charge	**8.1**	8.1
Loss on sale of property, plant and equipment and intangible assets	**1.2**	0.6
Release from deferred credits	**(15.4)**	(14.7)
Contributions and grants received[1]	**39.6**	46.5
Provisions charged to the income statement	**3.3**	12.2
Utilisation of provisions for liabilities	**(13.1)**	(12.8)
Operating cash flows before movements in working capital	**916.7**	926.3
Increase in inventory	**(8.4)**	(1.7)
Increase in amounts receivable	**(12.8)**	(60.0)
Increase in amounts payable	**32.6**	8.2
Cash generated from operations	**928.1**	872.8
Tax received	**0.4**	–
Tax paid	**(34.3)**	(21.3)
Net cash generated from operating activities	**894.2**	851.5

1 Contributions and grants received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash inflows by £46.5 million and increasing investing cash outflows by the same amount.

b) Non-cash transactions

Non-cash investing and financing cash flows disclosed in other notes were:

- Acquisition of right-of-use assets (note 19).
- Acquisition of infrastructure assets from developers at no cost (note 18).
- Shares issued to employees for no cash consideration under the LTIP (note 37).

c) Exceptional cash flows

There were no cash flows from items classified as exceptional in the income statement (2019 nil).

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Lease liabilities £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 31 March 2019	39.6	(1,120.1)	(4,820.5)	(112.2)	37.1	142.0	(5,834.1)
Recognised on adoption of IFRS 16 (see note 2 a)	–	–	–	(15.9)	–	–	(15.9)
As at 1 April 2019	39.6	(1,120.1)	(4,820.5)	(128.1)	37.1	142.0	(5,850.0)
Cash flow	9.0	(128.1)	(199.0)	5.5	–	(35.6)	(348.2)
Fair value adjustments	–	–	(0.5)	–	23.3	–	22.8
Inflation uplift on index-linked debt	–	(2.2)	(31.8)	–	–	–	(34.0)
Foreign exchange	–	–	(6.7)	–	–	–	(6.7)
Other non-cash movements	–	(1.5)	–	(0.1)	–	(13.8)	(15.4)
As at 31 March 2020	**48.6**	**(1,251.9)**	**(5,058.5)**	**(122.7)**	**60.4**	**92.6**	**(6,231.5)**

Liabilities from financing activities comprise bank loans, other loans and leases.

40 CONTINGENT LIABILITIES

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2019: nil) is expected to arise in respect of either bonds or guarantees.

41 FINANCIAL AND OTHER COMMITMENTS

a) Investment expenditure commitments

	2020 £m	2019 £m
Contracted for but not provided for in the financial statements	**287.6**	359.2

In addition to these contractual commitments, Severn Trent Water Limited has longer-term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and waste water services.

b) Leasing commitments

The Group leases property, plant and equipment under non-cancellable operating leases. From 1 April 2019 the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases (see note 2 for further details). At 31 March the Group had outstanding commitments for future minimum operating lease payments under these leases as follows:

	2020 £m	2019 £m
Within 1 year	**0.1**	2.8
1 – 5 years	**0.1**	4.2
After more than 5 years	**–**	10.5
	0.2	17.5

42 POST BALANCE SHEET EVENTS

Following the year end the Board of Directors has proposed a final dividend of 60.05 pence per share. Further details of this are shown in note 14.

43 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the Group and its joint venture, Water Plus, are disclosed below:

	2020 £m	2019 £m
Sale of services	**306.6**	335.0
Net interest income	**3.2**	3.8
	309.8	338.8

Outstanding balances between the Group and the joint venture as at 31 March were as follows:

	2020 £m	2019 £m
Trade and other receivables due from related parties	**12.1**	2.3
Loans receivable from joint ventures	**92.6**	142.0
	104.7	144.3

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year.

The remuneration of the Directors is included within the amounts disclosed below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' remuneration report on page 120.

	2020 £m	2019 £m
Short-term employee benefits	**7.4**	6.5
Share based payments	**4.2**	2.9
	11.6	9.4

44 ALTERNATIVE PERFORMANCE MEASURES

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APMs'). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

Exceptional items are income or expenditure which individually, or in aggregate if of a similar type, should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement and amortisation of intangible assets recognised on acquisition of subsidiaries. This provides a consistent measure of operating performance excluding distortions caused by exceptional items and reflecting the operational performance of the acquired subsidiaries. Following the acquisition of Agrivert, this APM was updated to include adjustment of amortisation on acquired intangible assets. The calculation of this APM is shown on the face of the income statement and in note 5 for reportable segments.

c) Underlying earnings per share

Underlying earnings per share figures exclude the effects of exceptional items, amortisation of intangible assets recognised on the acquisition of subsidiaries, net (losses)/gains on financial instruments, current tax on exceptional items and on net (losses)/gains on financial instruments, exceptional current tax and deferred tax. The Directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 15.

d) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 39.

e) Effective interest cost

The effective interest cost is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

$$\frac{(\textit{net finance costs} - \textit{net finance costs from pensions} + \textit{capitalised finance costs})}{(\textit{monthly average net debt})}$$

	2020 £m	2019 £m
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Capitalised finance costs	**44.2**	33.2
	221.5	213.6
Average net debt	**5,972.2**	5,547.7
Effective interest cost	**3.7%**	3.9%

This APM is used as it shows the average finance cost for the net debt of the business.

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest cost except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally inflation adjustments on index-linked debt).

$$\frac{\textit{(net finance costs – net finance costs from pensions – inflation adjustments + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2020 £m	2019 £m
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Inflation adjustments	**(34.0)**	(39.7)
Capitalised finance costs	**44.2**	33.2
	187.5	173.9
Average net debt	**5,972.2**	5,547.7
Effective cash cost of interest	**3.1%**	3.1%

This is used as it shows the average finance cost that is paid in cash.

g) Underlying PBIT interest cover

The ratio of underlying PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{underlying PBIT}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2020 £m	2019 £m
Underlying PBIT	**570.3**	573.6
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Net finance costs excluding net finance costs from pensions	**177.3**	180.4
	ratio	ratio
PBIT interest cover	**3.2**	3.2

This is used to show how the underlying PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

h) EBITDA and EBITDA interest cover

The ratio of profit before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{(underlying PBIT + depreciation + amortisation)}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2020 £m	2019 £m
Underlying PBIT	**570.3**	573.6
Depreciation (including right-of-use assets)	**334.0**	315.4
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**30.8**	29.8
EBITDA	**935.1**	918.8
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Net finance costs excluding finance costs from pensions	**177.3**	180.4
	ratio	ratio
EBITDA interest cover	**5.3**	5.1

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

44 ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

i) Underlying effective current tax rate

The current tax charge for the year, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit before tax, net losses/gains on financial instruments, exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries, and share of net loss of joint ventures accounted for using the equity method.

$$\frac{\textit{(current year current tax charge in the income statement – current tax on exceptional items – current tax on financial instruments – current tax on amortisation of acquired intangible assets)}}{\textit{(PBT – share of net loss of JVs – exceptional items – net losses/gains on financial instruments – amortisation of acquired intangible assets)}}$$

	2020 £m	2020 Current tax thereon £m	2019 £m	2019 Current tax thereon £m
Profit before tax	**310.7**	**(36.2)**	384.7	(41.2)
Adjustments				
Share of net loss of joint ventures	**46.8**	**–**	0.4	–
Amortisation of acquired intangible assets	**2.1**	**–**	0.7	–
Exceptional items	**4.9**	**(0.9)**	9.6	–
Net losses/(gains) on financial instruments	**17.4**	**(2.6)**	(16.0)	(2.6)
	381.9	**(39.7)**	379.4	(43.8)
Underlying effective current tax rate		**10.4%**		11.6%

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of underlying earnings per share in note 15. Share of net loss of joint ventures is excluded from the calculation because the loss is included after tax and so the tax on joint venture profits is not included in the current tax charge.

j) Operational cashflow

Cash generated from operations less contributions and grants received.

	2020 £m	2019 £m
Cash generated from operations	**928.1**	872.8
Contributions and grants received	**(39.6)**	(46.5)
Operational cashflow	**888.5**	826.3

This APM is used to show operational cash excluding the effect of contributions and grants received as part of capital programmes.

k) Cash capex

Cash paid to acquire property, plant and equipment and intangible fixed assets less contributions and grants received and proceeds on disposal of property, plant and equipment and intangible fixed assets.

	2020 £m	2019 £m
Purchase of property, plant and equipment	**777.2**	782.1
Purchase of intangible assets	**74.8**	35.1
Contributions and grants received	**(39.6)**	(46.5)
Proceeds on disposal of property, plant and equipment	**(12.9)**	(1.4)
Cash capex	**799.5**	769.3

This APM is used to show the cash impact of the Group's capital programmes.

45 SUBSIDIARY UNDERTAKINGS

Details of all subsidiary undertakings as at 31 March 2020 are given below. Details of the joint venture are set out in note 20. All subsidiary undertakings have been included in the consolidation.

Owned directly by Severn Trent Plc	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Severn Trent Investment Holdings Limited	United Kingdom	100%	Ordinary

The following subsidiary undertakings all operate and are incorporated in the United Kingdom. The percentage of share capital held is 100% and the class of share capital held is ordinary.

All subsidiary undertakings	
Aqua Deva Limited	Severn Trent Green Power Group Limited
Chester Water Limited	Severn Trent Green Power Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Green Power Limited
Dee Valley Group Limited	Severn Trent Holdings Limited
Dee Valley Limited	Severn Trent LCP Limited
Dee Valley Services Limited	Severn Trent Leasing Limited
Dee Valley Water (Holdings) Limited	Severn Trent Metering Services Limited
East Worcester Water Limited	Severn Trent MIS Trustees Limited
Etwall Land Limited	Severn Trent Overseas Holdings Limited
Hafren Dyfrdwy Cyfyngedig	Severn Trent Pension Scheme Trustees Limited
Midlands Land Portfolio Limited	Severn Trent PIF Trustees Limited
North Wales Gas Limited	Severn Trent Property Solutions Limited
Northern Gas Supplies Limited	Severn Trent Reservoirs Limited
Severn Trent (W&S) Limited	Severn Trent Retail and Utility Services Limited
Severn Trent Data Portal Limited	Severn Trent Services (Water and Sewerage) Limited
Severn Trent Draycote Limited	Severn Trent Services Defence Holdings Limited
Severn Trent Finance Holdings Limited	Severn Trent Services Defence Limited
Severn Trent Finance Limited	Severn Trent Services Holdings Limited
Severn Trent General Partnership Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services International Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent Services UK Limited
Severn Trent Green Power (CW) Limited	Severn Trent SSPS Trustees Limited
Severn Trent Green Power (Hertfordshire) Limited	Severn Trent Trimpley Limited
Severn Trent Green Power (North London) Limited	Severn Trent Utilities Finance Plc
Severn Trent Green Power (RBWM) Limited	Severn Trent Water Limited
Severn Trent Green Power (Wallingford) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power (West London) Limited	Severn Trent WWIF Limited
Severn Trent Green Power Biogas Limited	Wrexham Water Limited
Severn Trent Green Power Composting Limited	

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Athena Holdings Limited	Hong Kong	100%	Ordinary
Derwent Insurance Limited	Gibraltar	100%	Ordinary
Energy Supplies UK Limited	United Kingdom	100%	A and B Ordinary
Lyra Insurance Guernsey Limited	Guernsey	100%	Ordinary
Severn Trent Africa (Pty) Ltd	South Africa	100%	Ordinary
Severn Trent Carsington Limited	United Kingdom	100%	A and B Ordinary
Severn Trent Response Limited	Ireland	60%	Ordinary

45 SUBSIDIARY UNDERTAKINGS (CONTINUED)

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

Company	Registered office
Athena Holdings Limited	One 33, Hysan Avenue, Causeway Bay, Hong Kong
Dee Valley Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Hafren Dyfrdwy Cyfyngedig	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Derwent Insurance Limited	6A Queensway, PO Box 64, Gibraltar
Lyra Insurance Guernsey Limited	St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey
Severn Trent Africa (Pty) Ltd	2 Elgin Road, Sunninghill, Johannesburg, South Africa
Severn Trent General Partnership Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
Severn Trent Green Power (Ardley) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Bridgend) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Cassington) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (CW) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Hertfordshire) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (North London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (RBWM) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Wallingford) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (West London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Biogas Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Composting Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Group Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Holdings Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Response Limited	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2020 under section 479C of the Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

Company	Company number
Chester Water Limited	2888872
Dee Valley Group Limited	4316684
Dee Valley Limited	2902525
Dee Valley Water (Holdings) Limited	4421854
East Worcester Water Limited	2757948
Etwall Land Limited	7559793
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent General Partnership Limited	SC416614
Severn Trent Green Power (Ardley) Limited	5807721
Severn Trent Green Power (Hertfordshire) Limited	6771560
Severn Trent Green Power (North London) Limited	9689098
Severn Trent Green Power (West London) Limited	8308321
Severn Trent Green Power Composting Limited	4927756
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Leasing Limited	6810163
Severn Trent Metering Services Limited	2569703
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Reservoirs Limited	3115315
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services International Limited	2387816
Severn Trent Services UK Limited	8120387
Severn Trent Retail and Utility Services Limited	2562471
Severn Trent Trimpley Limited	10690056

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Profit for the year		**237.8**	216.5
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains/(losses)	15	**0.5**	(0.1)
Deferred tax on net actuarial gains	6	**(0.1)**	–
Deferred tax arising on change of rate	6	**0.2**	–
Other comprehensive income/(loss) for the year		**0.6**	(0.1)
Total comprehensive income for the year		**238.4**	216.4

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2018		235.1	117.7	160.7	2,958.4	3,471.9
Profit for the year		–	–	–	216.5	216.5
Net actuarial losses	15	–	–	–	(0.1)	(0.1)
Total comprehensive income for the year		–	–	–	216.4	216.4
Share options and LTIPs						
– proceeds from shares issued	11,12	0.8	10.3	–	–	11.1
– value of employees' services		–	–	–	7.2	7.2
Dividends paid	19	–	–	–	(211.9)	(211.9)
At 31 March 2019		235.9	128.0	160.7	2,970.1	3,494.7
Profit for the year		–	–	–	237.8	237.8
Net actuarial gains	15	–	–	–	0.5	0.5
Deferred tax on net actuarial gains	6	–	–	–	(0.1)	(0.1)
Deferred tax arising from rate change	6	–	–	–	0.2	0.2
Total comprehensive income for the year		–	–	–	238.4	238.4
Share options and LTIPs						
– proceeds from shares issued	11,12	0.6	9.0	–	–	9.6
– value of employees' services		–	–	–	8.1	8.1
Dividends paid	19	–	–	–	(228.4)	(228.4)
At 31 March 2020		**236.5**	**137.0**	**160.7**	**2,988.2**	**3,522.4**

Included in retained earnings are profits of £1,221.2 million that arose from Group restructuring arrangements in previous years and are therefore not distributable. Distributable reserves are therefore £1,767.0 million.

COMPANY BALANCE SHEET
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Non-current assets			
Intangible fixed assets	2	**0.1**	0.1
Tangible fixed assets	3	**0.6**	0.5
Right-of-use assets	4	**1.0**	–
Investments in subsidiaries	5	**3,346.0**	3,337.9
Deferred tax asset	6	**1.5**	1.6
Trade and other receivables	7	**855.5**	659.8
		4,204.7	3,999.9
Current assets			
Trade and other receivables	7	**27.3**	23.8
Current tax receivable		**2.6**	25.2
Cash and cash equivalents		**7.7**	1.9
		37.6	50.9
Current liabilities			
Borrowings	8	**(9.9)**	(4.5)
Trade and other payables	9	**(120.7)**	(147.1)
Provisions for liabilities	10	**(5.3)**	(3.6)
		(135.9)	(155.2)
Net current liabilities		**(98.3)**	(104.3)
Total assets less current liabilities		**4,106.4**	3,895.6
Non-current liabilities			
Borrowings	8	**(292.0)**	(88.3)
Trade and other payables	9	**(280.9)**	(298.9)
Retirement benefit obligations		**(7.9)**	(8.6)
Provisions for liabilities	10	**(3.2)**	(5.1)
		(584.0)	(400.9)
Net assets		**3,522.4**	3,494.7
Capital and reserves			
Called up share capital	11	**236.5**	235.9
Share premium account	12	**137.0**	128.0
Other reserves	13	**160.7**	160.7
Retained earnings		**2,988.2**	2,970.1
Total capital and reserves		**3,522.4**	3,494.7

The profit for the year is £237.8 million (2019: £216.5 million).

Signed on behalf of the Board which approved the accounts on 19 May 2020.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company number: 02366619

1 EMPLOYEE NUMBERS

The average number of employees during the year was 10 (2019: 11).

2 INTANGIBLE FIXED ASSETS

	Purchased software £m
Cost	
As at 1 April 2019 and 31 March 2020	**0.2**
Amortisation	
As at 1 April 2019 and 31 March 2020	**(0.1)**
Net book value	
At 31 March 2020	**0.1**
At 31 March 2019	0.1

3 TANGIBLE FIXED ASSETS

	Assets under construction
Cost	
At 1 April 2019	0.5
Additions	0.1
At 31 March 2020	**0.6**
Depreciation	
At 1 April 2019 and 31 March 2020	**–**
Net book value	
At 31 March 2020	**0.6**
At 31 March 2019	0.5

4 RIGHT-OF-USE ASSETS

a) The Company's leasing activities

The Company leases property with the lease agreement covering a fixed period of 10 years.

The contract does not include covenants other than security interests in the leased assets that are held by the lessor and leased assets may not be used as security for other borrowing. The contract does not impose any restrictions on dividend payment, additional debt or further leasing. There were no sale and leaseback transactions in the period.

b) Income statement

The income statement includes the following amounts relating to leases for the year ended 31 March 2020:

	2020 £m	2019 £m
Depreciation charge of right-of-use assets:		
Property	**0.1**	–
Total depreciation of right-of-use assets	**0.1**	–
Interest expense included in finance cost	**0.1**	–

There were no expenses for leases that are classified under the short-term or low-value exemption.

c) Balance sheet

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	£m
Right-of-use assets	1.1
Borrowings	(1.1)

The balance sheet includes the following amounts relating to leases:

	31 March 2020 £m	1 April 2019 £m
Right-of-use assets:		
Property	**1.0**	1.1
	1.0	1.1

There were no additions to right-of-use assets.

	31 March 2020 £m	1 April 2019 £m
Lease liabilities:		
Current	**0.1**	0.1
Non-current	**1.0**	1.0
	1.1	1.1

At 31 March 2019, the Company had no property, plant and equipment financed by finance leases.

Net lease obligations were as follows:

	2020 £m	2019 £m
Within 1 year	**0.1**	–
1 – 2 years	**0.1**	–
2 – 5 years	**0.3**	–
After more than 5 years	**0.6**	–
Included in non-current liabilities	**1.0**	–
	1.1	–

5 INVESTMENTS IN SUBSIDIARIES

	£m
As at 1 April 2019	3,337.9
Additions	8.1
As at 31 March 2020	**3,346.0**

Details of principal subsidiaries of the Company are given in note 45 to the Group financial statements.

6 DEFERRED TAX

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 April 2018	–	1.5	1.5
Credit to income	0.1	–	0.1
At 1 April 2019	0.1	1.5	1.6
Charge to income	(0.1)	(0.1)	(0.2)
Charge to equity	–	(0.1)	(0.1)
Credit to equity arising from rate change	–	0.2	0.2
At 31 March 2020	**–**	**1.5**	**1.5**

7 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Current assets		
Other amounts receivable	**6.9**	6.5
Prepayments	**–**	0.4
Amounts owed by group undertakings	**20.4**	16.9
	27.3	23.8
Non-current assets		
Loans receivable	**–**	32.4
Amounts owed by group undertakings under loan agreements	**855.5**	627.4
	855.5	659.8
	882.8	683.6

8 BORROWINGS

	2020 £m	2019 £m
Current liabilities		
Bank overdraft	**9.8**	4.5
Lease liabilities	**0.1**	–
	9.9	4.5
Non-current liabilities		
Other loans	**291.0**	88.3
Lease liabilities	**1.0**	–
	292.0	88.3
	301.9	92.8

At the balance sheet date the Company had £100 million (2019: £100 million) undrawn borrowing facilities.

9 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Current liabilities		
Trade payables	**0.1**	0.3
Social security and other taxes	**0.1**	0.1
Other payables	**4.6**	4.0
Accruals	**1.1**	3.4
Amounts due to group undertakings	**114.8**	139.3
	120.7	147.1
Non-current liabilities		
Accruals	**1.5**	–
Amounts due to group undertakings	**279.4**	298.9
	280.9	298.9
	401.6	446.0

10 PROVISIONS

	Insurance £m	Other £m	Total £m
At 1 April 2019	5.0	3.7	8.7
Charged to income statement	(1.8)	2.5	0.7
Utilisation of provision	(0.1)	(0.8)	(0.9)
At 31 March 2020	**3.1**	**5.4**	**8.5**

	2020 £m	2019 £m
Included in:		
Current liabilities	**5.3**	3.6
Non-current liabilities	**3.2**	5.1
	8.5	8.7

The claim outflows associated with insurance provisions are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period up to five years from the balance sheet date.

11 SHARE CAPITAL

	2020 £m	2019 £m
Total issued and fully paid share capital		
241,537,324 Ordinary Shares of 97 17/19 pence (2019: 240,943,929)	**236.5**	235.9

At 31 March 2020, treasury shares of 3,581,338 (2019: 3,774,921) were held at a nominal value of £3.5 million (2019: £3.7 million).

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 17/19 pence		
At 1 April 2018	240,222,617	235.1
Shares issued under the Employee Sharesave Scheme	721,312	0.8
At 1 April 2019	240,943,929	235.9
Shares issued under the Employee Sharesave Scheme	593,395	0.6
At 31 March 2020	**241,537,324**	**236.5**

12 SHARE PREMIUM

	2020 £m	2019 £m
At 1 April	**128.0**	117.7
Share premium arising on issue of shares for Employee Sharesave Scheme	**9.0**	10.3
At 31 March	**137.0**	128.0

13 OTHER RESERVES

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2018, 31 March 2019 and 2020	**157.1**	**3.6**	**160.7**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1.

14 SHARE BASED PAYMENT

For details of employee share schemes and options granted over the shares of the Company, see note 37 to the Group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the Company during the year are also disclosed in that note.

15 PENSIONS

Defined benefit schemes

The Group operates defined benefit pension schemes, of which some employees of the Company are members. There is no contractual agreement for charging the net defined benefit cost of these Schemes between the companies that participate in the Schemes. As a result, the net defined benefit cost of the Scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The Scheme closed to future accrual on 31 March 2015. The cost of contributions to the Group Schemes amount to £0.4 million (2019: £0.4 million). There were no amounts outstanding for contributions to the defined benefit schemes (2019: nil).

The Company has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. This unfunded scheme is part of the Severn Trent Pension Scheme.

Information about the Schemes as a whole is disclosed in note 28 to the Group financial statements.

16 RELATED PARTY TRANSACTIONS

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28 to the Group financial statements.

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited. The guarantee in respect of liabilities to wholesalers is capped at £54.1 million (2019: £58.1 million) and the guarantees for the Severn Trent Water loan is for the amount due.

The Company has also made available to Water Plus a revolving credit facility of £32.5 million. At 31 March 2020 the amount drawn was nil (2019: £32.5 million).

17 CONTINGENT LIABILITIES

a) Bonds and guarantees

The Company has entered into bonds and guarantees in the normal course of business. No liabilities are expected to arise in respect of either the bonds or guarantees.

b) Bank offset arrangements

The banking arrangements of the Company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each other's overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2020, the Company had no contingent liabilities (2019: nil).

18 POST BALANCE SHEET EVENTS

Following the year end the Board of Directors has proposed a final dividend of 60.05 pence per share.

19 DIVIDENDS

For details of the dividends paid in the years ended 31 March 2020 and 31 March 2019 see note 14 to the Group financial statements.

FIVE YEAR SUMMARY

Continuing operations	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Turnover	**1,843.5**	1,767.4	1,696.4	1,638.0	1,753.7
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	**570.3**	573.6	539.8	520.1	503.4
Net exceptional items before tax	**(51.7)**	(9.6)	(12.6)	16.6	1.0
Amortisation of acquired intangible assets	**(2.1)**	(0.7)	–	–	–
Net interest payable before (losses)/gains on financial instruments and exceptional finance costs	**(188.4)**	(194.2)	(219.5)	(205.1)	(209.3)
(Losses)/gains on financial instruments	**(17.4)**	16.0	(6.7)	(1.8)	7.7
Results of associates and joint ventures[1]	**–**	(0.4)	0.2	(1.8)	0.1
Profit on ordinary activities before taxation	**310.7**	384.7	301.2	328.0	302.9
Current taxation on profit on ordinary activities	**(30.1)**	(31.8)	(32.9)	(36.3)	(51.3)
Deferred taxation	**(29.1)**	(39.4)	(28.7)	(22.4)	(13.7)
Exceptional tax	**(92.7)**	1.8	–	52.2	78.6
Profit on ordinary activities after taxation	**158.8**	315.3	239.6	321.5	316.5
Results from discontinued operations	**–**	–	13.2	21.1	14.8
Profit for the year	**158.8**	315.3	252.8	342.6	331.3
Net assets employed					
Fixed assets	**9,954.8**	9,337.7	8,660.1	8,315.7	7,810.8
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(1,142.0)**	(992.6)	(956.0)	(916.8)	(798.4)
Derivative financial instruments[2]	**(158.5)**	(95.1)	(104.3)	(161.1)	(166.3)
Net retirement benefit obligation	**(234.0)**	(452.9)	(519.8)	(574.6)	(309.5)
Provisions for liabilities and deferred tax	**(945.1)**	(798.9)	(726.5)	(657.5)	(694.7)
	7,475.2	6,998.2	6,353.5	6,005.7	5,841.9
Financed by					
Called up share capital	**236.5**	235.9	235.1	234.7	234.3
Reserves	**1,007.2**	928.2	761.8	688.6	783.1
Total shareholders' funds	**1,243.7**	1,164.1	996.9	923.3	1,017.4
Non-controlling interests	**–**	–	–	–	1.1
Net debt[3]	**6,231.5**	5,834.1	5,356.6	5,082.4	4,823.4
	7,475.2	6,998.2	6,353.5	6,005.7	5,841.9
Statistics					
Earnings per share (continuing) – pence	**66.7**	133.4	101.8	136.8	133.5
Underlying earnings per share – pence	**146.0**	145.8	120.5	115.7	102.1
Dividends per share (excluding special dividend) – pence	**100.1**	93.4	86.6	81.5	80.7
Dividend cover (before exceptional items and deferred tax)	**1.5**	1.6	1.4	1.4	1.3
Gearing[4] – %	**83.4**	83.3	84.4	84.6	82.6
Ordinary share price at 31 March – pence	**2,280.0**	1,976.0	1,844.0	2,382.0	2,173.0
Average number of employees					
– Regulated Water and Waste Water	**5,824**	5,680	5,660	5,273	5,236
– Other	**972**	900	605	596	2,122

1 Excludes exceptional share of net losses of joint venture.

2 Excludes instruments hedging foreign currency debt.

3 Includes instruments hedging foreign currency debt.

4 Gearing has been calculated as net debt divided by the sum of equity and net debt.

INFORMATION FOR SHAREHOLDERS

SEVERN TRENT SHAREHOLDER HELPLINE

The Company's registrar is Equiniti. Equiniti's main responsibilities include maintaining the shareholder register and making dividend payments.

If you have any queries relating to your Severn Trent Plc shareholding you should contact Equiniti.

Registrar contact details:
Online: www.shareview.co.uk
From here you will be able
to securely email Equiniti with your query.
Telephone: 0371 384 2967
Overseas enquiries: +44 121 415 7044
Text phone: 0371 384 2255*
By post: Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex, BN99 6DA

CORPORATE WEBSITE

Shareholders are encouraged to visit our website **www.severntrent.com** which provides:

- company news and information;
- links to our operational businesses' websites;
- details of our governance arrangements;
- details of our strategy;
- details of the Group's business models and business plan; and
- the Company's approach to sustainability and innovation.

There is also a dedicated Investors' section on the website which contains up to date information for shareholders including:

- comprehensive share price information;
- financial results;
- a history of dividend payment dates and amounts; and
- access to current and historical shareholder documents such as the Annual Report and Accounts.

ELECTRONIC COMMUNICATIONS

By registering to receive shareholder documentation from Severn Trent Plc electronically shareholders can benefit from being able to:

- view the Annual Report and Accounts on the day it is published;
- receive an email alert when shareholder documents are available;
- cast their AGM vote electronically; and
- manage their shareholding quickly and securely online, through Shareview.

Electronic shareholder communications also enable the Company to reduce its impact on the environment and benefit from savings associated with reduced printing and mailing costs.

For further information and to register for electronic shareholder communications visit www.shareview.co.uk

DIVIDEND PAYMENTS

Bank mandates

Dividends can be paid automatically into your bank or building society account.

The benefits of doing this are that you will:

- receive cleared funds in your bank account on the payment date;
- avoid postal delays; and
- remove the risk of your cheques getting lost in the post.

To take advantage of this service or for further details contact Equiniti or visit www.shareview.co.uk

Dividend reinvestment plan ('DRIP')

The DRIP gives shareholders the option of using their dividend payments to buy more Severn Trent Plc shares instead of receiving cash. If you would like to participate in the DRIP, please request a dividend reinvestment plan mandate from Equiniti Financial Services Limited.

Telephone: 0371 384 2268*
Telephone number from outside the UK: +44 121 415 7173